

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>MONTMORENCY COUNTY</b>	County <b>MONTMORENCY</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>6/12/06</b>	Date Accountant Report Submitted to State: <b>6/29/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

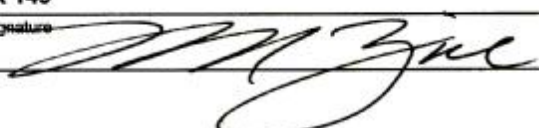
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>THOMAS R. ZICK CPA, P.C.</b>			
Street Address <b>P.O. BOX 149</b>		City <b>LEWISTON</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49756</b>	Date <b>6/29/06</b>

**MONTMORENCY COUNTY  
BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005**

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**Thomas R. Zick CPA, P.C.**  
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## INDEPENDENT AUDITOR'S REPORT

June 12, 2006

Board of Commissioners  
Montmorency County  
Atlanta, Michigan 49709

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Montmorency, Michigan as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Montmorency, Michigan management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, based on my audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Montmorency, Michigan, as of December 31, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Montmorency, Michigan basic financial statements. The introductory section, and combining non-major fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied by me in the audit of the basic financial statements and, in my opinion, based on my audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, I have also issued my report dated June 12, 2006 on my consideration of Montmorency County's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

A handwritten signature in black ink, reading "Thomas R. Zick, CPA P.C." in a cursive script.

THOMAS R. ZICK CPA, P.C.  
CERTIFIED PUBLIC ACCOUNTANT

# **MONTMORENCY COUNTY, MICHIGAN**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of Montmorency County, we offer readers of the Montmorency County financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### **Financial Highlights**

The assets of Montmorency County governmental funds exceed its liabilities at the close of fiscal year, 2005 by \$3,855,672. Of this amount \$861,692 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- \* At December 31, 2005, the County's governmental funds reported combined ending fund balances of \$2,683,416.
- \* At December 31, 2005, unreserved fund balance for the General Fund was \$394,616 or 11.6% of General Fund expenditures.
- \* Governmental funds revenues were \$ 5,804,357.
- \* Total long-term debt in the Governmental Activities was \$852,399 at December 31, 2005
- \*

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the County financial statements. The County basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS.** The *government-wide financial statements* are designed to provide readers with a broad overview of the County finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in *net assets* may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows: Thus, revenues and expenses are reported in this statement of some items that will only result in cash flows in future fiscal periods (e.g. accrued interest expense).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the County include legislative, judicial, general government, public safety, public works, health and welfare, and recreation and culture. The business-type activities of the County include delinquent property tax collection and landfill operation which is reported as a component unit.

The government-wide financial statements include not only the County itself (known as the primary government), but also legally separate component units for which the County is financially accountable. Financial information for the component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 9-11 of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**FUND FINANCIAL STATEMENTS.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*GOVERNMENTAL FUNDS.* Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 32 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the general fund, considered to be the major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets for the County's major funds.

The basic governmental fund financial statements can be found on pages 12-15 of this report.

*Proprietary Funds.* The County maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its delinquent taxes.

The basic proprietary fund financial statements can be found on pages 16-18 of this report.

*Fiduciary Funds.* Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 19 of this report.

**NOTES TO THE FINANCIAL STATEMENTS.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-44 of this report.

**OTHER INFORMATION.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to the financial statement. Combining statements and schedules can be found on pages 54-65 of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceed liabilities by \$6,096,941 at the close of the most recent fiscal year. A large portion of the County's net assets reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens, consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At December 31, 2005 the County had \$791,834 in debt associated with its governmental fund capital assets.

#### MONTMORENCY COUNTY NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and Other Assets	\$ 4,180,724	\$ 4,127,899	\$ 2,309,578	\$ 2,037,064	\$ 6,490,302	\$ 6,164,963
Capital Assets	<u>2,034,549</u>	<u>1,993,004</u>	<u>-</u>	<u>-</u>	<u>2,034,549</u>	<u>1,993,004</u>
Total Assets	6,215,273	6,120,903	2,309,578	2,037,064	8,524,851	8,157,967
Long-Term Liabilities	781,992	800,000	-	-	781,992	800,000
Other Liabilities	<u>1,577,609</u>	<u>2,231,091</u>	<u>68,309</u>	<u>35,748</u>	<u>1,645,918</u>	<u>2,266,839</u>
Total Liabilities	<u>2,359,601</u>	<u>3,031,091</u>	<u>68,309</u>	<u>35,748</u>	<u>2,427,910</u>	<u>3,066,839</u>
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	1,242,715	1,193,004	-	-	1,242,715	1,193,004
Restricted	1,751,265	1,090,541	32,272	13,662	1,783,537	1,104,203
Unrestricted	<u>861,692</u>	<u>806,267</u>	<u>2,208,997</u>	<u>1,987,654</u>	<u>3,070,689</u>	<u>2,793,921</u>
Total Net Assets	<u>\$ 3,855,672</u>	<u>\$ 3,089,812</u>	<u>\$ 2,241,269</u>	<u>\$ 2,001,316</u>	<u>\$ 6,096,941</u>	<u>\$ 5,091,128</u>

The County uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Investment in capital assets, net of related debt, is 20% of total net assets. An additional portion of the County's net assets (29%) represents resources that are subject to external restrictions on how they may be used. Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. All such assets (except for assets invested in capital assets, net of related debt) are considered restricted or unrestricted. The unrestricted portion of the County's net assets is 51% of net assets. These net assets may be used to meet the government's ongoing obligations to citizens and creditors.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### MONTMORENCY COUNTY CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program Revenue						
Charges for Services	\$ 1,270,445	\$ 1,256,787	\$ 200,855	\$ 139,231	\$ 1,471,300	\$ 1,396,018
Operating Grants and Contributions	876,164	962,712	-	-	876,164	962,712
Capital Grants	-	94,261	-	-	-	94,261
General Revenue						
Property Taxes	3,362,836	3,128,098	-	-	3,362,836	3,128,098
Other	282,972	188,972	64,419	35,059	347,391	224,031
Total Revenue	5,792,417	5,630,830	265,274	174,290	6,057,691	5,805,120
Expenses						
Legislative	102,778	167,097	-	-	102,778	167,097
Judicial	602,925	633,056	-	-	602,925	633,056
General Government	1,439,300	1,125,739	-	-	1,439,300	1,125,739
Public Safety	1,848,047	1,767,750	-	-	1,848,047	1,767,750
Public Works	-	-	-	-	-	-
Health and Welfare	656,564	685,075	-	-	656,564	685,075
Recreation and Culture	336,468	257,586	-	-	336,468	257,586
Interest on Debt	40,475	42,975	-	-	40,475	42,975
Delinquent Property Tax	-	-	25,321	1,047	25,321	1,047
Total Liabilities	5,026,557	4,679,278	25,321	1,047	5,051,878	4,680,325
Increase in Net Assets Before Transfer	765,860	951,552	239,953	173,243	1,005,813	1,124,795
Transfer	-	9,150	-	(9,150)	-	-
Increase in Net Assets	765,860	960,702	239,953	164,093	1,005,813	1,124,795
Net Assets - Beginning of Year	3,089,812	2,129,110	2,001,316	1,837,223	5,091,128	3,966,333
Net Assets - End of Year	\$ 3,855,672	\$ 3,089,812	\$ 2,241,269	\$ 2,001,316	\$ 6,096,941	\$ 5,091,128

#### **Governmental Activities**

Governmental activities increased the County's net assets by \$765,860 accounting for 76.1% of the total growth in the County's net assets. The main reasons for the change in fund balances and the change in net assets are capital outlays in the current year which are expensed under the modified accrual method are carried as fixed assets under full accrual, and the principal payments on debt that is expensed under the modified accrual method is booked as a reduction in long-term debt under full accrual. In addition, the new fund, Revenue Sharing Reserve set up by the State of Michigan statutes generated \$521,780 in additional Net Assets.

Government activities include:

- \* Legislative activities – Expenditures related to the Board of Commissioners and high-level administrative expenditures.
- \* Judicial activities– Expenditures related to the administration of Circuit, District, and Probate/Family Courts and Court Probation units.
- \* General government activities – Expenditures related to the support department of the County such as Administration, Equalization, Treasury, Facilities Management, Finance, and Other.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- \* Public Safety – Expenditures related to the Sheriff's administration and road patrol and County corrections services.
- \* Health and Welfare – Expenditures related to public health services, child care, medical examiner, programs for seniors, and housing assistance programs.
- \* Recreation and Culture – Expenditures related to County library.

### **Business-type activities**

The business-type activities of the County include proprietary operations.

Business-type activities increased the County's net assets by \$239,953 or 23.9% of the growth in net assets. The increase in the business-type activities' net assets was generated through interest and penalties on delinquent property taxes and interest earned on deposits in the Delinquent Tax Revolving Fund.

Business-type activities include:

- \* Delinquent tax revolving fund – This fund was established as a means to provide the local governments within the County's jurisdiction with 100% of the property tax distributions owed to them annually. The County then acts as the collection agency for the outstanding delinquent taxes.

### **Financial Analysis of the Government's Funds**

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County governmental fund statements is to provide information non near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Unreserved fund balance represented 15.1% of annual government expenditures in 2005 in the governmental funds.

The General fund balance increased by \$72,703 from \$321,913 to \$394,616 during 2005 due to growth of general fund revenue by 5.9% while expenditures grew by 7.98%. General fund revenue included the sale of the east annex buildings which generated gross proceeds of \$174,944 or 4.8% of general fund revenue. This is a non recurring transaction. Expenditure growth was highest in general government and public safety. Unreserved fund balance of \$394,616 is available for spending at the County's discretion.

Proprietary funds. The County proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

<u>Proprietary Fund</u>	<u>2005 Unrestricted Net Assets.</u>
Enterprise Funds	
100% Tax Payment Fund	\$ 2,208,997

Other factors considering the finances of these funds have been addressed in the discussion of the County's business-type activities.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

### **General Fund Budgetary Highlights**

Amended budgetary line items differed from the originally adopted budget mainly for the following reasons:

#### **Revenues:**

Sale of capital assets increased by	\$ 175,000
Youth Officer reimbursement increased by	22,600
Jail Revenues were increased by	30,000

#### **Expenses:**

County coordinator was increased by	17,835
Auto repair & maintenance was increased by	18,527
General Services were decreased by	19,116
Public Safety was increased by	11,461
Capital outlay increased by	74,110
Equalization was increased by	27,218
Prosecuting Attorney was increased by	15,923

### **Capital Asset and Debt Administration**

Capital Assets – A capital asset is an asset whose cost exceeds \$400 and useful life is greater than two years. Included in the cost of a capital asset are items such as labor and freight and any other costs associated with bringing the asset into full operation. Assets are depreciated using the straight-line method over the course of their useful lives.

The County currently has long-term debt totaling \$852,399 which is a reduction of \$17,361 from 2004.

### **Economic Factors and Next Year's Budgets and Rates**

The taxable value of commercial, residential, and personal property increased 4.89% from 2004 to 2005. This growth is expected to continue.

Montmorency county has seen their revenues increase on a very limited basis while expenses increased at a higher percentage. The County anticipates slow economic growth to continue throughout 2006 and 2007.

The Board of Commissioners is committed to purchasing the health department portion of the courthouse building and over the next year will under take a renovation project on the old courthouse.

### **Requests for Information**

This financial report is designed to provide a general overview of the County finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be referred to the Montmorency County Treasurer, P.O. Box 789, Atlanta, MI 49709.

MONTMORENCY COUNTY  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2005

	Primary Government			Component Unit	Component Unit
	Governmental Activities	Business-type Activities	Total	Road Commission	Landfill Authority
<b>ASSETS</b>					
Cash demand and time deposits	\$ 819,309	\$ 1,696,305	\$ 2,515,614	\$ 407,401	\$ 139,677
Investments	1,145,564	1,378	1,146,942	-	1,986,136
Restricted cash	-	-	-	-	1,928,884
Restricted investments	-	-	-	-	-
Receivables					
Accounts	33,610	-	33,610	979	161,318
Current tax	1,962,129	-	1,962,129	-	-
Delinquent tax	-	485,815	485,815	-	-
Interest and penalties	-	126,080	126,080	-	-
Other governments	107,597	-	107,597	360,620	-
Mortgages/Notes	112,515	-	112,515	-	-
Prepaid items and other assets	-	-	-	26,862	2,454
Inventory	-	-	-	250,567	-
Capital assets					
Land & land improvements	76,500	-	76,500	-	164,561
Other capital assets, net of depreciation	1,958,049	-	1,958,049	12,816,922	1,502,925
<b>TOTAL ASSETS</b>	<b>6,215,273</b>	<b>2,309,578</b>	<b>8,524,851</b>	<b>13,863,351</b>	<b>5,885,955</b>
<b>LIABILITIES</b>					
Account payable	114,178	-	114,178	50,671	22,936
Accrued liabilities	72,311	-	72,311	57,288	16,213
Due to other governments	4,650	68,309	72,959	-	-
Advance from other governments	-	-	-	-	-
Deferred revenue	1,316,063	-	1,316,063	50,688	-
Noncurrent liabilities:					
Accrued compensated absences	60,565	-	60,565	215,634	-
Due within one year	70,407	-	70,407	177,220	295,127
Due in more than one year	721,427	-	721,427	1,184,009	495,875
Estimated liability for landfill closure and post closure care costs	-	-	-	-	3,368,215
<b>TOTAL LIABILITIES</b>	<b>2,359,601</b>	<b>68,309</b>	<b>2,427,910</b>	<b>1,735,510</b>	<b>4,198,366</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	1,242,715	-	1,242,715	11,455,693	876,484
Restricted for:					
Debt Service	1,728	-	1,728	-	-
Capital Projects	3,526	-	3,526	-	-
Central Dispatch/911	138,157	-	138,157	-	-
County Library	117,707	-	117,707	-	-
Register of Deeds Automation	28,947	-	28,947	-	-
Construction Code Enforcement	38,601	-	38,601	-	-
Gypsy Moth Suppression	105,748	-	105,748	-	-
Other	177,919	32,272	210,191	-	-
Revenue Sharing Reserve	1,138,932	-	1,138,932	-	-
County Roads	-	-	-	672,148	-
Unrestricted	861,692	2,208,997	3,070,689	-	811,105
<b>TOTAL NET ASSETS</b>	<b>\$ 3,855,672</b>	<b>\$ 2,241,269</b>	<b>\$ 6,096,941</b>	<b>\$ 12,127,841</b>	<b>\$ 1,687,589</b>

See Notes to Financial Statements

MONTMORENCY COUNTY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government</b>					
Governmental Activities					
Legislative	\$ 102,778	\$ -	\$ -	\$ -	\$ (102,778)
Judicial	602,925	242,702	165,150	-	(195,073)
General Government	1,439,300	283,832	287,112	-	(868,356)
Public Safety	1,848,047	633,341	242,032	-	(972,674)
Health and Welfare	656,564	110,570	127,144	-	(418,850)
Recreation and Culture	336,468	-	54,726	-	(281,742)
Interest on Debt	40,475	-	-	-	(40,475)
Total Governmental Activities	<u>5,026,557</u>	<u>1,270,445</u>	<u>876,164</u>	<u>-</u>	<u>(2,879,948)</u>
Business-type Activities					
Delinquent Property Tax	<u>25,321</u>	<u>200,855</u>	<u>-</u>	<u>-</u>	<u>175,534</u>
Total Business-type Activities	<u>25,321</u>	<u>200,855</u>	<u>-</u>	<u>-</u>	<u>175,534</u>
Total Primary Government	<u>\$ 5,051,878</u>	<u>\$ 1,471,300</u>	<u>\$ 876,164</u>	<u>\$ -</u>	<u>\$ (2,704,414)</u>
<b>Component Unit</b>					
Road Commission	\$ 2,722,550	\$ 38,504	\$ 2,801,905	\$ 227,513	\$ 345,372
Landfill Authority	<u>1,190,889</u>	<u>1,710,603</u>	<u>-</u>	<u>-</u>	<u>519,714</u>
Total Component Units	<u>\$ 3,913,439</u>	<u>\$ 1,749,107</u>	<u>\$ 2,801,905</u>	<u>\$ 227,513</u>	<u>\$ 865,086</u>

(Continued)

See Notes to Financial Statements

MONTMORENCY COUNTY  
STATEMENT OF ACTIVITIES (Concluded)  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Primary Government			Component Unit	Component Unit
	Governmental Activities	Business-type Activities	Total	Road Commission	Landfill Authority
<b>Changes in net assets</b>					
Net (expense) revenue	\$ (2,879,948)	\$ 175,534	\$ (2,704,414)	\$ 345,372	\$ 519,714
General revenues:					
Property taxes	3,362,836	-	3,362,836	-	-
Convention tax/Cigarette tax	61,378	-	61,378	-	-
Unrestricted investment earnings	58,040	64,419	122,459	14,256	117,809
Gain on sales of capital assets	163,554	-	163,554	-	-
Total general revenues, contributions and transfers	3,645,808	64,419	3,710,227	14,256	117,809
Change in net assets	765,860	239,953	1,005,813	359,628	637,523
Net assets, beginning of year	3,089,812	2,001,316	5,091,128	11,768,213	1,050,066
<b>Net assets, end of year</b>	<b>\$ 3,855,672</b>	<b>\$ 2,241,269</b>	<b>\$ 6,096,941</b>	<b>\$ 12,127,841</b>	<b>\$ 1,687,589</b>

See Notes to Financial Statements

MONTMORENCY COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005

	MAJOR FUNDS			OTHER NONMAJOR FUNDS	TOTAL
	GENERAL FUND	REVENUE SHARING RESERVE	BUDGET STABILIZATION		
ASSETS					
Cash	\$ 37,112	\$ 43,482	\$ 3,532	\$ 735,183	\$ 819,309
Investments	350,564	400,000	300,000	95,000	1,145,564
Receivables					
Taxes	804,344	695,450	-	462,335	1,962,129
Accounts	21,107	-		12,503	33,610
Note	-	-		112,515	112,515
Due From Other Funds	5,000	-		-	5,000
Due From Other Governmental Units	52,648	-		54,949	107,597
<b>TOTAL ASSETS</b>	<b>\$ 1,270,775</b>	<b>\$ 1,138,932</b>	<b>\$ 303,532</b>	<b>\$ 1,472,485</b>	<b>\$ 4,185,724</b>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 78,552	\$ -	\$ -	35,626	\$ 114,178
Accrued Liabilities	48,689	-	-	13,728	62,417
Due to Other Funds	-	-	-	5,000	5,000
Due to Other Governmental Units	-	-	-	4,650	4,650
Deferred Revenue	748,918	-	-	567,145	1,316,063
<b>TOTAL LIABILITIES</b>	<b>876,159</b>	<b>-</b>	<b>-</b>	<b>626,149</b>	<b>1,502,308</b>
FUND BALANCES					
Reserved	-	1,138,932	303,532	361,673	1,804,137
Unreserved	394,616	-	-	484,663	879,279
<b>TOTAL FUND BALANCES</b>	<b>394,616</b>	<b>1,138,932</b>	<b>303,532</b>	<b>846,336</b>	<b>2,683,416</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,270,775</b>	<b>\$ 1,138,932</b>	<b>\$ 303,532</b>	<b>\$ 1,472,485</b>	<b>\$ 4,185,724</b>

See Notes to Financial Statements

MONTMORENCY COUNTY  
Reconciliation of Fund Balances on the Balance Sheet  
for Governmental Funds to Net Assets of  
Governmental Activities on the Statement of Net Assets  
DECEMBER 31, 2005

Fund Balances - Total Governmental Funds	\$ 2,683,416
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital Assets - at Cost	3,274,208
Accumulated Depreciation	(1,239,659)

Accrued interest on bonds payable is not included as a liability in the funds	(9,894)
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Long Term Debt - bonds payable not due and payable in current period and is not reported in the funds	(750,000)
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Long Term Debt - Installment purchases not due and payable in current period and is not reported in the funds	(41,834)
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Vested employee Benefits Payable are not due and payable in the current period and are not reported in the funds	(60,565)
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Net Assets of Governmental Activities	<u>\$ 3,855,672</u>
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See Notes to Financial Statements



MONTMORENCY COUNTY  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005

	MAJOR FUNDS			OTHER -	
	GENERAL	REVENUE	BUDGET	NONMAJOR	TOTAL
	FUND	SHARING	STABILIZATION	FUNDS	
		RESERVE			
REVENUES					
Taxes	\$ 2,220,649	\$ 695,450	\$ -	\$ 446,737	\$ 3,362,836
Licenses and Permits	8,192	-	-	167,306	175,498
Intergovernmental Revenue:					
Federal	37,698	-	-	24,687	62,385
State	209,366	-	-	336,542	545,908
Other Local Units	-	-	-	-	-
Charges for Services	757,581	-	-	337,366	1,094,947
Fines and Forfeits	5,451	-	-	37,479	42,930
Interest and Rents	53,445	-	532	4,063	58,040
Other Revenue	352,341	-	-	109,472	461,813
<b>TOTAL REVENUES</b>	<b>3,644,723</b>	<b>695,450</b>	<b>532</b>	<b>1,463,652</b>	<b>5,804,357</b>
EXPENDITURES					
Current					
Legislative	102,778	-	-	-	102,778
Judicial	571,066	-	-	8,759	579,825
General Government	1,177,816	-	-	233,493	1,411,309
Public Safety	1,201,864	-	-	558,533	1,760,397
Public Works	-	-	-	-	-
Health and Welfare	173,841	-	-	482,723	656,564
Recreation and Cultural	63,109	-	-	268,810	331,919
Capital Outlay	117,088	-	-	88,882	205,970
Debt Service:					
Principal	-	-	-	50,000	50,000
Interest and Other Charges	-	-	-	41,100	41,100
<b>TOTAL EXPENDITURES</b>	<b>3,407,562</b>	<b>-</b>	<b>-</b>	<b>1,732,300</b>	<b>5,139,862</b>
REVENUES OVER (UNDER) EXPENDITURES	237,161	695,450	532	(268,648)	664,495
OTHER FINANCING SOURCES (USES)					
Proceeds from Installment Debt	41,834	-	-	-	41,834
Transfers In	180,069	-	37,000	349,361	566,430
Transfers (Out)	(386,361)	(173,670)	-	(6,399)	(566,430)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(164,458)</b>	<b>(173,670)</b>	<b>37,000</b>	<b>342,962</b>	<b>41,834</b>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	72,703	521,780	37,532	74,314	706,329
FUND BALANCES, BEGINNING OF YEAR	321,913	617,152	266,000	772,022	1,977,087
FUND BALANCES, END OF YEAR	\$ 394,616	\$ 1,138,932	\$ 303,532	\$ 846,336	\$ 2,683,416

See Notes to Financial Statements

MONTMORENCY COUNTY  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
DECEMBER 31, 2005

Net Change in Fund Balances - Total Governmental Funds \$ 706,329

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - Capital Outlay	205,970
Deduct - Depreciation Expense	(152,485)

Revenues in the statement of activities that do not provide current resources are not reported as fund revenues

Debt proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Add - Principal Payments on Long-Term Liabilities	50,000
Deduct - Proceeds from installment sale debt	(41,834)

Accrued interest on bonded debt does not require the current use of financial resources and is not reported as an expenditure in the fund statement

Add: decrease in accrued interest payable	625
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Vested employee benefits payable do not require the current use of financial resources and are not reported as expenditures in the fund statement

Deduct - Increase in vested employee benefits	9,195
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The sale of capital assets in the governmental funds is recorded at the full sale price while in the Statement of Activities only the gain is recorded. Therefore the cost/net book value of the assets sold must be deducted.

(11,940)

Change in Net Assets of Governmental Activities	<u><u>\$ 765,860</u></u>
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See Notes to Financial Statements

MONTMORENCY COUNTY  
 PROPRIETARY FUNDS  
 STATEMENT OF NET ASSETS  
 DECEMBER 31, 2005

	<u>100% TAX PAYMENT</u>
ASSETS	
Current Assets	
Cash	\$ 1,696,305
Investments	1,378
Receivables:	
Taxes	485,815
Interest and Penalties on Taxes	<u>126,080</u>
TOTAL ASSETS	<u>2,309,578</u>
LIABILITIES	
Due to Other Governments	<u>\$ 68,309</u>
TOTAL LIABILITIES, ALL CURRENT	<u>68,309</u>
NET ASSETS	
Unrestricted net assets	2,208,997
Restricted net assets	<u>32,272</u>
TOTAL NET ASSETS	<u><u>\$ 2,241,269</u></u>

See Notes to Financial Statements

MONTMORENCY COUNTY  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES  
 AND CHANGES IN NET ASSETS  
 DECEMBER 31, 2005

	ENTERPRISE FUND <u>100% TAX PAYMENT</u>
OPERATING REVENUES	
Interest and Penalties on Taxes	\$ 121,263
Charges for Services	<u>79,592</u>
TOTAL OPERATING REVENUES	<u>200,855</u>
OPERATING EXPENSES	
Other Expenses	<u>25,321</u>
TOTAL OPERATING EXPENSES	<u>25,321</u>
OPERATING INCOME (LOSS)	175,534
NONOPERATING REVENUES (EXPENSES)	
Interest Earned on Investments	<u>64,419</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>64,419</u>
NET INCOME (LOSS)	239,953
NET ASSETS, BEGINNING OF YEAR	<u>2,001,316</u>
NET ASSETS, END OF YEAR	<u><u>\$ 2,241,269</u></u>

See Notes to Financial Statements

MONTMORENCY COUNTY  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2005

	ENTERPRISE FUND 100% TAX PAYMENT
Cash Flows from Operating Activities:	
Cash received from taxpayers - penalties and interest on delinquent taxes	\$ 153,881
Cash received from taxpayers - delinquent taxes	850,267
Purchase of delinquent taxes	(1,031,727)
Cash payments for goods and services	<u>(25,321)</u>
Net Cash Provided (Used) by Operating Activities	<u>(52,900)</u>
Cash Flows from Capital and Related Financing Activities:	
Due to Other Governmental Units	<u>32,561</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>32,561</u>
Cash Flows from Investing Activities:	
Interest on Investments	<u>64,419</u>
Net Cash Provided by Investing Activities	<u>64,419</u>
Net Increase (Decrease) in Cash and Cash Equivalents	44,080
Cash and Cash Equivalents, Beginning of Year	<u>1,653,603</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,697,683</u></u>
Operating Income (Loss)	\$ 175,534
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	<u>(228,434)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (52,900)</u></u>

See Notes to Financial Statements

MONTMORENCY COUNTY  
STATEMENT OF FIDUCIARY FUND NET ASSETS  
AGENCY FUNDS  
DECEMBER 31, 2005

ASSETS

Cash	\$ 491,122
<u>TOTAL ASSETS</u>	<u>\$ 491,122</u>

LIABILITIES

Due to Other Governmental Units	\$ 33,329
Undistributed Collections	241,469
Other Liabilities	<u>216,324</u>
<u>TOTAL LIABILITIES</u>	<u>\$ 491,122</u>

See Notes to Financial Statements

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the County conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

**DESCRIPTION OF COUNTY OPERATIONS AND FUND TYPES**

The County was organized in 1881 and covers an area of approximately 550 square miles with the County seat located in Atlanta, Michigan. The County operates under an elected Board of Commissioners of five (5) members and provides services, assistance and care to its more than 10,000 residents, primarily from the operations of its General Fund and Special Revenue Funds. The County's services, assistance and care includes the (1) general county departments, boards and commissions; (2) court system administration; (3) law enforcement and corrections; (4) assistance and/or institutional care to the aged, needy, wards of the court and neglected children, public and mental health recipients; (5) libraries; (6) recreation, and (7) road construction and maintenance.

**REPORTING ENTITY** - The financial statements of certain governmental organizations are not included in the financial statements of the County: (1) Education services which are provided to citizens through the several local school districts which are separate governmental entities.

The Governmental Accounting Standards Board (GASB) in its issuance of Statement 14 "The Financial Reporting Entity" and the State of Michigan Department of Treasury established criteria for governmental organizations to be considered to be part of the County for financial reporting purposes. The criteria included oversight responsibility, fiscal dependency and whether the statements would be misleading if data was not included.

**DISCRETELY PRESENTED COMPONENT UNITS**

**COUNTY ROAD COMMISSION** - The County Road Commission is considered a component unit of the County. Its financial statement is discretely presented in the County Combined financial Statements as required by accounting principles generally accepted in the United States of America as revised under GASB 14. The Road Commission is presented discretely as a governmental fund type. This data is reported in a separate column to emphasize that the Road Commission does have an elected Road Commission and for the most part operates separate from the overall County. Complete financial statements can be obtained directly from the Road Commission office at 11445 M-32, Atlanta, Michigan 49709.

**SOLID WASTE MANAGEMENT AUTHORITY** - The Montmorency-Oscoda-Alpena Solid Waste Management Authority was incorporated during 1998, with by-laws adopted effective August 5, 1998. The Authority is the successor entity to a joint venture between Montmorency and Oscoda Counties and is considered a component unit of Montmorency County which, under GASB #14 is discretely presented as a proprietary(enterprise) fund type. The Authority was incorporated under the provisions of Act No. 233 of 1955 and was created by the counties of Montmorency, Oscoda, and Alpena. The registered office is the Office of the Treasurer of Montmorency County. Each entity appoints two representatives to the Authority Board, one of whom shall be a member of the legislative body of the municipality. The other appointed individual may, but need not be a member of the legislative body of the municipality.

The Authority articles of incorporation specifically stated its intention to assume the assets and liabilities of the joint venture between Montmorency and Oscoda County. In the event of dissolution the assets of the Authority shall be sold and the balance equally divided among the municipalities.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The employees of the Authority participate in all of the fringe benefit programs that Montmorency county employees are offered and information shown in subsequent notes to these financial statements cover Authority Board employees along with the general county employees except for the pension plan. During 2003 the Authority established its own pension account with MERS.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are charged based upon a countywide cost allocation plan, which allocates costs based upon the number of full time equivalents, number of transactions, and other pertinent information. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of the year for which they were levied, the Delinquent Tax Revolving Fund pays the County for any outstanding taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues are considered to be available when all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the County.



MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The County reports the following major governmental funds:

GENERAL FUND – This fund is the County's the primary general operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

REVENUE SHARING RESERVE FUND – This fund was established by the State of Michigan during 2004 as a result of legislation that in effect shifted an obligation formerly funded by the State to the local taxpayers by levying taxes sooner.

BUDGET STABILIZATION – This fund is used to supplement the general fund in years when expenses exceed revenue. The only source of revenue is transfers from the general fund in surplus years.

The County reports the following major enterprise fund:

DELINQUENT PROPERTY TAX FUND – This fund is used to pay each local governmental unit, including the County General Fund, the respective amount of taxes not collected as of March 1 of each year. Financing is provided by subsequent collection of delinquent property taxes by the County Treasurer.

Additionally, the County reports the following fund types:

SPECIAL REVENUE FUNDS – These funds are used to account for specific revenues derived primarily from sources (other than major capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

DEBT SERVICE FUNDS – account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the Building Authority.

CAPITAL PROJECTS FUNDS – The Capital Projects Funds are used to account for the acquisition or construction of major capital facilities other than those financed by enterprise funds or special assessments.

AGENCY FUNDS – are used to account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidelines.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are interest and penalties on delinquent taxes and charges for services provided. The principal operating revenues of the County's internal service funds are charges to County departments for equipment amortization and insurance coverage. Operating expenses for the enterprise funds consist of administrative expenses. Operating expenses for the internal service funds include the cost of services (including claims), administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non operating revenues and expenses.

**BUDGETS AND BUDGETARY ACCOUNTING**

**PRIMARY GOVERNMENT**

A budget is adopted by the Board of Commissioners in accordance with Michigan Public Act 621 of 1978, the Uniform Budgeting and Accounting Act, for the general and special revenue funds. The Board amends the budget as necessary during the year. The budget is adopted on the modified accrual basis of accounting consistent with the actual financial statements for these funds. The budget is adopted at the activity level and control is exercised at the activity level for the General Fund and Special Revenue Funds. All budget appropriations lapse at the end of each fiscal year.

The County does not use encumbrances in its accounting system.

**DISCRETELY PRESENTED COMPONENT UNIT – ROAD COMMISSION**

Budgetary procedures are established pursuant to Michigan Public Act 621, PA 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the Board of Road commissioners for its review and consideration. The budget is amended as necessary during the year, and is approved by the Board. The budget is prepared on the modified accrual basis of accounting, which is the same basis utilized for the fund financial statements.

**ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY**

**BANK DEPOSITS AND INVESTMENTS** – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair market value.

**RECEIVABLES AND PAYABLES** – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

**CURRENT PROPERTY TAX LEVY** – The County property tax is levied each December 1 and July 1 on the taxable valuation of property located in the County as of the preceding December 31.

Beginning with the 2004 tax levy the State has mandated the creation of a Revenue Sharing Reserve fund into which one-third of the County's 2004 ad valorem operating tax is being recognized and deposited each year for three years. The purpose of the fund is to accumulate reserves of the County's own local tax dollars from which an amount similar to Revenue Sharing payments, formerly made by the State, will be made back to the General Fund. As part of this process, the County's operating tax levy is shifting over the next three years from winter to summer.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The County's Winter 2004 and Summer 2005 ad valorem taxes were levied and collectible on December 1, 2004 and July 1, 2005, respectively. It is the County's policy to recognize revenues from the tax levy in the year when the proceeds of the levy are budgeted and made available for the financing of County operations. As a result, the County's Winter 2004 and Summer 2005 tax levies have been recognized as revenue in the current fiscal year. The 2004 taxable value of Antrim County amounted to \$400,645,443 on which ad valorem taxes levies for county general operating purposes consisted of 3.47726 mills for Winter 2004 and the 2005 taxable value amounted to \$420,253,251 on which 1.7184 mills for Summer 2005. The Montmorency County Commission on Aging levied .4946 mills for services related to the aging within the County. The County levied .60 mills for County Library services.

By resolution of the Board of Commissioners and agreement with various taxing authorities, the County purchased at face value the real property taxes receivable returned delinquent on March 1, 2005. Subsequent collections of delinquent taxes receivable, plus interest thereon and investment earnings, are used to repay the funds distributed by the Delinquent Tax Revolving fund. This activity is accounted for in the Delinquent Tax Revolving (Enterprise) Fund.

TAXES RECEIVABLE - DELINQUENT – The taxes receivable of \$485,815 which are recorded in the Enterprise 100% Tax Payment Fund, consist of the unpaid delinquent real property taxes which were purchased from all of the taxing units in Montmorency County by the County's 100% Tax Payment Fund.

INVENTORIES AND PREPAID ITEMS ROAD COMMISSION (COMPONENT UNIT) – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statement.

CAPITAL ASSETS – Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the activities column in the government-as assets with an initial individual cost of more then \$400 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	50 to 75 years
Roads	10 to 30 years
Other Infrastructure	8 to 50 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

DEFERRED REVENUE – Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

LONG-TERM OBLIGATIONS – In the government-wide financial statements and proprietary fund type statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, material bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt used is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

FUND EQUITY – In the fund financial statements, governmental and business-type funds report reservations of fund balance for amounts that are not legally restricted for use for a specific purpose.

ACCOUNTING CHANGE – Effective January 1, 2004 the County implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB No.34)*, along with all related statements and interpretations. Changes to the County's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD & A) section providing analysis of the County's overall financial position and results of operations has been included.

Basic financial statement (statement of net assets and statement of activities) prepared using full accrual accounting for the governmental funds has been provided.

Capital assets in the statement of net assets includes assets totaling \$2,034,549 not previously accounted for by the County in its governmental funds.

The statement would also include bonds and other long-term obligations reported in the General Long-Term Debt Account Group.

**NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS / FUND DEFICITS**

Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. The approved budgets of the County for all budgetary funds were adopted at the department (activity) level.

PRIMARY GOVERNMENT

During the year ended December 31, 2005 expenditures were incurred in excess of the amounts appropriated in the amended budget of the general fund and special revenue fund types of the primary government as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General:			
Capital Outlay	\$ 74,810	\$ 117,088	\$ (42,278)
Special Revenue:			
County Library	\$ 288,295	\$ 305,258	\$ (16,963)

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 3 – CASH AND INVESTMENTS**

The captions on the accompanying balance sheet related to cash and investments are as follows:

	<u>Imprest</u>	<u>Cash/Checking and Savings</u>	<u>Investments</u>	<u>Total</u>
Primary Government				
Government Activities	\$ 6,301	\$ 813,008	\$ 1,145,564	\$ 1,964,873
Business-type Activities	-0-	1,696,305	1,378	1,697,683
Agency Funds	-0-	491,122	-	491,122
Component Unit				
Road Commission	2,200	405,201	-	407,401
Landfill Authority	500	2,068,061*	1,986,136	4,054,697
	<u>\$ 9,001</u>	<u>\$ 5,473,697</u>	<u>\$ 3,133,078</u>	<u>\$ 8,615,776</u>

\* – Includes restricted cash of \$1,928,884.

Deposits – At year-end, the carrying amount of the County's deposits was \$5,473,697 and the bank balance of \$5,521,233 was classified as to risk as follows:

Insured	\$ 1,097,043
Uninsured – Uncollateralized	<u>4,376,654</u>
	<u>\$ 5,473,697</u>

Investments – Act 217, PA 1982, authorized the County to deposit and invest in the following:

- (a) bonds, securities and other direct obligations of the United States or its agencies
- (b) certificates of deposit, savings and accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the National Credit Union Administration that are eligible to be depository of surplus money belonging to the State and maintains a principal office or branch office in Michigan.
- (c) commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase.
- (d) United States government or Federal agency obligation repurchase agreements
- (e) bankers' acceptance of United States banks
- (f) mutual funds properly registered with the State of Michigan, composed of investments which are legal for direct investments by local units of government in Michigan.

The investments owned by Montmorency County as of December 31, 2005 are listed as follows:

	<u>Carrying Value</u>	<u>Market Value</u>
Mutual Funds:		
Bank One Governmental Money Market Fund	\$ 1,942	\$ 1,942
National City Bank Municipal Investment Fund	<u>3,131,136</u>	<u>3,131,136</u>
Total Mutual Funds and Total Investments	<u>\$ 3,133,078</u>	<u>\$ 3,133,078</u>

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

The certificates of deposit in the Component Unit - Solid Waste Management Authority amounting to \$1,928,884 were placed into an escrow account at National City Bank under the direction of the Director of the Michigan Department of Environmental Quality. The director of the Department is the beneficiary on the escrow account. The escrow account was established to hold the investments/cash accounts. All earnings must accrue to the escrow account. The Director must approve any disbursements from the account which assures that monitoring of the landfill site will have sufficient funds if needed in future years. These certificates are classified as Restricted Cash in the accompanying financial statements.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The county's investments all meet State statutes.

Interest Rate Risk

The County has not adopted a policy that indicates how the County will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of Credit Risk

The County has not adopted a policy that indicates how the County will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk

The County has not adopted a policy that indicates how the County will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

**NOTE 4 – RECEIVABLES / DEFERRED REVENUE**

Receivables as of year-end for the government's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

		Revenue Sharing	Other	
	General Fund	Reserve Fund	Nonmajor Funds	Total
Taxes Receivable	\$ 804,344	\$ 695,450	\$ 462,335	\$ 1,962,129
Accounts	21,107	-	12,503	33,610
EDC Loans	-		112,515	112,515
Intergovernmental	52,648	-	54,949	107,597
Net Receivables	<u>\$ 878,099</u>	<u>\$ 695,450</u>	<u>\$ 642,302</u>	<u>\$ 2,215,851</u>

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 4 – RECEIVABLES / DEFERRED REVENUE (CONTINUED)**

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Delinquent Property Taxes	\$ 1,203,548	\$ -	\$ 1,203,548
EDC Loans	-	112,515	112,515
Total	<u>\$ 1,203,548</u>	<u>\$ 112,515</u>	<u>\$ 1,316,063</u>

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>	
Due To/From Other Funds			
General	\$ 5,000	Lake Levels Fund	\$ 5,000
Total	<u>\$ 5,000</u>		<u>\$ 5,000</u>

**Interfund Transfers**

	<u>Operating Transfer In</u>	<u>Operating Transfer (Out)</u>	<u>Total</u>
Transfers In			
General Fund	\$ 180,069	\$ (386,361)	\$ (206,292)
Revenue Sharing Reserve Fund	-	(173,670)	(173,670)
Budget Stabilization	37,000	-	37,000
Non-Major Governmental Funds	<u>349,361</u>	<u>(6,399)</u>	<u>342,962</u>
Total	<u>\$ 566,430</u>	<u>\$ (566,430)</u>	<u>\$ -</u>

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 6 - CAPITAL ASSETS**

Capital asset activity of the primary government for the current year was as follows:

	Balance 1/1/05	Additions	Disposals	Balance 12/31/05
Capital assets not being depreciated:				
Land	\$ 81,018	\$ -	\$ 11,940	\$ 69,078
Subtotal	<u>81,018</u>	<u>-</u>	<u>11,940</u>	<u>69,078</u>
Capital assets being depreciated:				
Buildings	1,810,047	28,721	29,840	1,808,928
Land Improvements	7,422	-	-	7,422
Equipment	928,464	46,314	-	974,778
Vehicles	<u>291,367</u>	<u>130,935</u>	<u>8,300</u>	<u>414,002</u>
Subtotal	<u>3,037,300</u>	<u>205,970</u>	<u>38,140</u>	<u>3,205,130</u>
Accumulated Depreciation:				
Buildings	567,416	35,650	29,840	573,226
Land Improvements	742	742	-	1,484
Equipment	405,001	87,857	-	492,858
Vehicles	<u>152,155</u>	<u>28,236</u>	<u>8,300</u>	<u>172,091</u>
Subtotal	<u>1,125,314</u>	<u>152,485</u>	<u>38,140</u>	<u>1,239,659</u>
Net Capital Assets Being Depreciated	<u>1,911,986</u>	<u>53,485</u>	<u>-</u>	<u>1,965,471</u>
Net Capital Assets	<u>\$ 1,993,004</u>	<u>\$ 53,485</u>	<u>\$ 11,940</u>	<u>\$ 2,034,549</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
Judicial	\$ 23,100
General government	37,186
Public Safety	87,650
Recreation and Culture	<u>4,549</u>
Total Governmental Activities	<u>\$ 152,485</u>



MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 6 - CAPITAL ASSETS (CONTINUED)**

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION – The following is a summary of changes in Capital Assets

	Balance 1/1/05	Additions	Disposals	Balance 12/31/05
Capital assets not being depreciated:				
Land	\$ 17,476	\$ -	\$ -	\$ 17,476
Infrastructure and Land Improvements	4,710,729	687,361	-	5,398,090
Subtotal	4,728,205	687,361	-	5,415,566
Capital assets being depreciated:				
Buildings	1,999,378	-	-	1,999,378
Equipment - Road	2,471,229	384,488	-	2,855,717
Equipment - Shop	41,468	536	-	42,004
Equipment - Office	38,290	-	-	38,290
Equipment - Engineering	7,235	-	-	7,235
Equipment - Yard & Storage	83,640	-	-	83,640
Infrastructure - Bridges	2,098,789	-	-	2,098,789
Infrastructure - Roads	6,535,959	502,757	-	7,038,716
Subtotal	13,275,988	887,781	-	14,163,769
Accumulated Depreciation:				
Buildings	242,466	43,765	-	286,231
Equipment - Road	2,131,878	123,995	-	2,255,873
Equipment - Shop	21,314	4,342	-	25,656
Equipment - Office	25,452	3,288	-	28,740
Equipment - Engineering	3,099	979	-	4,078
Equipment - Yard & Storage	27,940	-	-	27,940
Infrastructure - Bridges	324,250	58,842	-	383,092
Infrastructure - Roads	3,107,296	643,507	-	3,750,803
Subtotal	5,883,695	878,718	-	6,762,413
Net Capital Assets Being Depreciated	7,392,293	9,063	-	7,401,356
Net Component Unit Capital Assets	\$ 12,120,498	\$ 696,424	\$ -	\$ 12,816,922

Depreciation expense was charged to operations as follows:

Primary	\$ 392,652
Local	309,697
Equipment	172,102
Administration	4,267
Total depreciation	<u>\$ 878,718</u>

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 6 - CAPITAL ASSETS (CONTINUED)**

DISCRETELY PRESENTED COMPONENT UNIT - SOLID WASTE MANAGEMENT AUTHORITY

Capital asset activity of the Authority for the current year was as follows:

Depreciation expense was \$369,844 for 2005.

	Balance 1/1/05	Additions	Disposals	Balance 12/31/05
Capital assets not being depreciated:				
Land	\$ 164,561	\$ -	\$ -	\$ 164,561
Capital assets being depreciated:				
Land Improvements/buildings	5,958,220	12,054	-	5,970,274
Equipment	1,480,118	30,835	-	1,510,953
Subtotal	<u>7,438,338</u>	<u>42,889</u>	<u>-</u>	<u>7,481,227</u>
Accumulated Depreciation:				
Accumulated Depreciation:	<u>5,443,897</u>	<u>369,844</u>	<u>-</u>	<u>5,813,741</u>
Subtotal	<u>5,443,897</u>	<u>369,844</u>	<u>-</u>	<u>5,813,741</u>
Net Capital Assets Being Depreciated	<u>1,994,441</u>	<u>(326,955)</u>	<u>-</u>	<u>1,667,486</u>
Net Business Type Activities Capital Assets	<u>\$ 2,159,002</u>	<u>\$ (326,955)</u>	<u>\$ -</u>	<u>\$ 1,832,047</u>

**NOTE 7 - LONG-TERM DEBT**

Following is a summary of pertinent information concerning the County's long-term debt:

PRIMARY GOVERNMENT

Outstanding Debt Descriptions:

	General County
General Obligation:	
Judicial Annex and Refunding Bonds	\$ 750,000
Lease/Purchase Installment Leases	41,834
Compensated absences	<u>60,565</u>
Totals	<u>\$ 852,399</u>

CHANGES IN LONG-TERM DEBT

	Bonded Debt	Installment Loans	Proprietary	Compensated Absences	Total
January 1, 2005	\$ 800,000	\$ -0-	\$ -0-	\$ 69,760	\$ 869,760
Additions	-0-	41,834	-0-	-0-	41,834
Reductions	<u>(50,000)</u>	<u>-0-</u>	<u>-0-</u>	<u>(1) (9,195)</u>	<u>(59,195)</u>
December 31, 2005	<u>\$ 750,000</u>	<u>\$ 41,834</u>	<u>\$ -0-</u>	<u>\$ 60,565</u>	<u>\$ 852,399</u>

(1) Changes in compensated absences are shown as net additions.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 7 - LONG-TERM DEBT (CONTINUED)**

GENERAL LONG-TERM DEBT

DESCRIPTION: - Judicial Annex and Refunding General Obligation Bonds - proceeds used to finance the construction of a courthouse addition and to refinance the outstanding correctional facility bonds.

<u>Interest Rates</u>	<u>Maturity Year</u>	<u>Outstanding Principal</u>	<u>12/31/05 Interest</u>
5.00/5.65	2020	<u>\$ 750,000</u>	<u>\$ 304,238</u>
	Total	<u>\$ 1,054,238</u>	

Annual Debt Service Requirements:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Other</u>	<u>Total</u>
Principal	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 500,000	\$ 750,000
Interest	<u>38,825</u>	<u>35,825</u>	<u>33,325</u>	<u>30,825</u>	<u>28,325</u>	<u>137,613</u>	<u>304,238</u>
Total	<u>\$ 88,325</u>	<u>\$ 85,825</u>	<u>\$ 83,325</u>	<u>\$ 80,825</u>	<u>\$ 78,325</u>	<u>\$ 637,613</u>	<u>\$1,054,238</u>

The construction cost for the courthouse addition was \$660,000 and \$335,000 was needed at issue date to repay the correctional facility bonds. In future years 34% of the payment is being charged to the correctional facility and 66% to general fund operations.

The Montmorency County Building Authority under PA 31 of 1948 borrowed the funds. The County has pledged its full faith and credit under lease agreements with the Building Authority and is obligated to levy each year, to the extent necessary, ad valorem taxes necessary for payment of the leases. The leases provide the Building Authority with sufficient funds to pay the debt obligation.

Installment / Lease Purchase

DESCRIPTION: - The County purchased three patrol vehicles paying one third in the 2005 year and agreeing to pay two additional annual payments as follows:

	<u>2006</u>	<u>2007</u>	<u>Total</u>
Principal	\$ 20,407	\$ 21,427	\$ 41,834
Interest	<u>2,092</u>	<u>1,071</u>	<u>3,163</u>
	<u>\$ 22,499</u>	<u>\$ 22,498</u>	<u>\$ 44,997</u>

Interest is calculated at a rate of 5.0% per annum with the final payment due October 7, 2007.

Total Annual Debt Service Requirements:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Other</u>	<u>Total</u>
Principal	\$ 70,407	\$ 71,427	\$ 50,000	\$ 50,000	\$ 50,000	\$ 500,000	\$ 791,834
Interest	<u>40,917</u>	<u>36,896</u>	<u>33,325</u>	<u>30,825</u>	<u>28,325</u>	<u>137,613</u>	<u>307,401</u>
Total	<u>\$ 111,324</u>	<u>\$ 108,323</u>	<u>\$ 83,325</u>	<u>\$ 80,825</u>	<u>\$ 78,325</u>	<u>\$ 637,613</u>	<u>\$1,099,235</u>

Compensated Absences

The County policies provide for accumulated vacation, sick and personal days. At December 31, 2005 the accumulated totals were \$60,565 for the three combined.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 7 - LONG-TERM DEBT (CONTINUED)**

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

<u>Description</u>	<u>1/1/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/05</u>
Installment Loans:				
New Holland Tractor/Mower	\$ 22,260	\$ -0-	\$ 10,831	\$ 11,429
Citizens Bank	-0-	415,706	3,629	412,077
Komatsu Dozer	-0-	80,400	7,252	73,148
Etnyre Trailer	-0-	44,092	3,852	40,240
Ford Credit – Van	-0-	9,670	335	9,335
Series 2003 Bond Issue	900,000	-0-	85,000	815,000
Compensated Absences	215,681	-0-	(1) 47	215,634
Totals	<u>\$ 1,137,941</u>	<u>\$ 549,868</u>	<u>\$ 110,946</u>	<u>\$ 1,576,863</u>

(1) Compensated absences are recorded as a net addition or deduction.

Annual Debt Service Requirements for Long-Term Debt:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Other</u>	<u>Total</u>
Principal	\$177,220	\$176,213	\$179,907	\$188,288	\$183,055	\$456,546	\$ 1,361,229
Interest	<u>50,656</u>	<u>44,799</u>	<u>38,855</u>	<u>32,376</u>	<u>25,937</u>	<u>46,735</u>	<u>239,408</u>
Totals	<u>\$227,876</u>	<u>\$221,012</u>	<u>\$218,762</u>	<u>\$220,664</u>	<u>\$209,042</u>	<u>\$503,281</u>	<u>\$ 1,600,637</u>

Installment Loans:

In 2002 a New Holland tractor/mower was purchased and financed through New Holland Credit Corp. Annual payments of \$12,055 are due with an interest rate of 5.50%. The loan matures in 2006.

On June 29, 2005 the Road Commission lease/purchased a Komatsu Dozer. Monthly payments of \$1,499 are due beginning August 1, 2005 with a final payment due July 1, 2010. Interest is charged at a rate of 4.5% per annum.

On July 2, 2005 the Road Commission lease/purchased an Etnyre trailer. Monthly payments of \$818 are due beginning August 5, 2005 with a final payment due July 10, 2010. Interest is charged at a rate of 4.30% per annum.

On October 16, 2005 the Road Commission purchased a Ford van. Monthly payments of \$243 are due beginning November 16, 2005 with a final payment due October 16, 2009. Interest is charged at a rate of 9.40% per annum.

On November 2, 2005 the Road Commission purchased three International trucks and related equipment. Citizens Bank financed the transaction in two parts. One part financed the trucks and the other portion of the note purchased the attached equipment. Monthly payments of \$3,400 and \$2,339 are due beginning December 15, 2005 with a final payment due November 15, 2012. Interest is charged at a rate of 4.25% per annum.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 7 - LONG-TERM DEBT (CONTINUED)**

Series 2003 Michigan Transportation Fund Bond Issue

During 2004 \$900,000 was borrowed to assist in reconstruction of the Atlanta facility necessary after the fire which occurred in 2002. The amortization schedule is as follows:

	Interest Rate	May 1		November 1	
		Interest	Principal	Interest	Principal
2006	2.50%	13,215	-0-	13,215	90,000
2007	2.75%	12,090	-0-	12,090	95,000
2008	2.75%	10,784	-0-	10,784	95,000
2009	3.10%	9,478	-0-	9,478	100,000
2010	3.35%	7,927	-0-	7,927	105,000
2011	3.55%	6,169	-0-	6,169	105,000
2012	3.75%	4,305	-0-	4,305	110,000
2013	3.90%	2,242	-0-	2,242	115,000
		<u>\$ 66,210</u>	<u>\$ -0-</u>	<u>\$ 66,210</u>	<u>\$ 815,000</u>

Interest rates varied between 2.50% and 3.90% over the life of the Bond Issue.

Compensated Absences

Road Commission policies provide for the payment of vacation, sick and personal days accumulated. Accrued sick pay at December 31, 2005 was \$131,754. Vacation and personal days accumulated created a liability of \$83,880 for a total of \$215,634.

DISCRETELY PRESENTED COMPONENT UNIT - SOLID WASTE MANAGEMENT AUTHORITY

	<u>12/31/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/05</u>
2002 Bond	490,000	-0-	150,000	340,000
Lease/Purchase	575,441	-0-	124,439	451,002
Total	<u>\$ 1,065,441</u>	<u>\$ -0-</u>	<u>\$ 274,439</u>	<u>\$ 791,002</u>

DESCRIPTION - Series 2002 General Obligation Limited Tax Bonds were issued to be used to finance the cost of a new landfill cell. It is anticipated that revenue from the Authority will be sufficient to repay the bonds as they come due, however, the three counties involved have pledged to levy ad valorem taxes if necessary to repay the bonds.

<u>Year</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	2.80%	165,000	10,045	175,045
2007	3.10%	175,000	5,425	180,425
Total		<u>\$ 340,000</u>	<u>\$ 15,470</u>	<u>\$ 355,470</u>

DESCRIPTION - In 2001 a 627 Caterpillar scraper was purchased with G. E. Credit Company providing the financing. A Bomag compactor was purchased in 2002 with Old National Bank providing the financing. In 2004 a 980GII loader was purchased with CAT Financial providing the lease/financing. The 980G11 contract calls for a balloon payment of \$126,000 on June 20, 2007. The G. E. Credit lease requires a balloon payment of \$110,000 after 72 monthly payments are made while the Old National Bank lease requires 5 payments beginning in January of 2003. The equipment has been capitalized and the outstanding balances are shown as installment loans in the financial statements. Interest rates vary between 3.75% and 5.75%.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 7 - LONG-TERM DEBT (CONTINUED)**

Interest Rates	<u>Outstanding 12/31/05</u> Principal	Interest
3.75/5.75	<u>\$ 451,002</u>	<u>\$ 25,950</u>

Total \$ 476,952

Equipment Lease/Purchase Annual Debt Service Requirements:

	<u>2006</u>	<u>2007</u>	<u>Total</u>
Principal	\$ 130,127	\$ 320,875	\$ 451,002
Interest	<u>18,205</u>	<u>7,745</u>	<u>25,950</u>
Totals	<u>\$ 148,332</u>	<u>\$ 328,620</u>	<u>\$ 476,952</u>

Monthly payments on the equipment are as follows:

980GII wheel loader	\$ 3,031
627 scraper	4,928
	<u>\$ 7,959</u>

Annual payment on  
Bomag compactor is:  
\$ 52,827

Long-Term Debt Annual Debt Service Requirements

	<u>2006</u>	<u>2007</u>	<u>Total</u>
Principal	\$ 295,127	\$ 495,875	\$ 791,002
Interest	<u>28,250</u>	<u>13,170</u>	<u>41,420</u>
Total	<u>\$ 323,377</u>	<u>\$ 509,045</u>	<u>\$ 832,422</u>

Long-Term Debt Summary

	<u>2005</u>
2002 General Obligation Limited Tax Bonds	\$ 340,000
Installment Loans	<u>451,002</u>
Total Debt	791,002
Less Current Portion	<u>(295,127)</u>
Net Long-Term Debt	<u>\$ 495,875</u>

**NOTE 8 - PENSION PLANS**

PRIMARY GOVERNMENT

Plan Description - Montmorency County participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 8 - PENSION PLANS (CONTINUED)**

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, Michigan 48817.

All full time County employees are eligible to participate in the system. Benefits vest after ten years of service. General County employees who retire at or after age 55 with 15 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2% of the members 5-year final average compensation.

Participating General county employees are not required to contribute to the system. The county is required to contribute amounts necessary to fund the Michigan Municipal Employees Retirement System using the actuarial basis specified by State Statute.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (a) inflation, and (b) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (c) the assumption that benefits will increase 2.5% annually after retirement.

All entries are based on the actuarial methods and assumption that were used in the December 31, 2005 actuarial valuation to determine the annual employer contribution amounts. the entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/05)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 4,040,803
Terminated employees not yet receiving benefits	377,336
Non-vested terminated employees	738
Current employees:	
Accumulated employee contributions	
including allocated investment income	3,702
Employer financed	<u>2,480,444</u>
Total Actuarial accrued liability	6,903,023
Net Assets Available for Benefits, at actuarial value	
(Market Value is \$4,9357,934	<u>4,475,878</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ 2,427,145</u>

GASB 27 INFORMATION (as of 12/31/05)

Fiscal year beginning	January 1, 2007
Annual required contribution (ARC)	\$ 270,648
Amortization factor used	0.053632

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 8 - PENSION PLANS (CONTINUED)**

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2004 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Annual Pension Cost

<u>Year Ended December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 250,067	100%	-0-
2004	\$ 218,436	100%	\$ -0-
2005	\$ 252,528	100%	-0-

The County was required to contribute \$252,528 for the year ended December 31, 2005. Payments were based on contribution calculations made by MERS.

<u>Actuarial Valuation Date December 31</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL - % Of Covered Payroll</u>
2003	4,339,660	6,356,070	2,016,410	68%	1,415,756	142%
2004	4,584,826	5,732,334	2,147,508	68%	1,473,150	146%
2005	4,475,878	6,903,023	2,427,145	65%	1,401,434	173%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997 and 2000 and 2004 valuations. The funding method was changed to entry age normal for the 1993 valuation.

LIBRARY

The Library fund employees left the MERS plan in May of 2004. They set up a Simplified Employee Pension (SEP) administered by National City Bank and its investment department. This plan is a defined contribution plan. The Library fund is required to contribute 8.9% of the employee wages to the plan. For the period May through December of 2005 \$4,445 was contributed to the plan. The Library does not receive a summary statement. Each employee has their separate account and receives the required statements from the bank.



MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 8 - PENSION PLANS (CONTINUED)**

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

Plan Description - Montmorency County Road Commission has established a defined contribution pension plan with the Manulife Financial covering substantially all employees. Participating employees contribute a portion of their compensation annually and the Commission contributes the remaining amounts necessary to fund the plan according to requirements. The Commission is obligated for 5% of an employees base salary computed as of January 1 each year. Covered payroll was \$1,023,503 total payroll was \$1,023,503 for the year. The total contribution to the plan for 2005 was \$58,258.

Funding Status and Progress - Not all of the information required by the Governmental Accounting Standards Board disclosure requirements is included below because the year end reports did not contain the necessary information. The following information was supplied, however.

Account Value at January 1, 2005	\$ 1,145,005
Employer Contributions	58,258
Employee Contributions	49,579
Net Investment Earnings and	
Market Value Increase	167,970
Administrative Fees	(9,605)
Distributions	<u>(13,333)</u>
 Total Plan Assets at	
December 31, 2005	 <u>\$ 1,397,874</u>

DISCRETELY PRESENTED COMPONENT UNIT – SOLID WASTE MANAGEMENT LANDFILL AUTHORITY

In previous years the Authority employees were participants in the Montmorency County pension plan. Pension contributions from the Authority for 2005 and 2004 respectively were \$24,218 and \$23,618. In early 2003 the Authority separated their plan from Montmorency County. The December 31, 2004 actuarial report is used in this report. The December 31, 2005 report is not yet available from MERS.

Plan Description – The Authority participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, Michigan 48917.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 8 - PENSION PLANS (CONTINUED)**

All full time Authority employees are eligible to participate in the system. Benefits vest after ten years of service. Authority employees who retire at or after age 55 with 15 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.25% of the members 5-year final average compensation.

Participating Authority employees are not required to contribute to the system. The Authority is required to contribute the amounts necessary to fund the Michigan Municipal Employees Retirement System using the actuarial basis specified by State Statute.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2004. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (a) inflation, and (b) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (c) the assumption that benefits will increase 2.5% annually after retirement.

All entries are based on the actuarial methods and assumption that were used in the December 31, 2004 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/04)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ -0-
Terminated employees not yet receiving benefits	-0-
Non-vested terminated employees	-0-
Current employees:	
Accumulated employee contributions	
including allocated investment income	-0-
Employer financed	<u>205,430</u>
Total Actuarial accrued liability	205,430

Net Assets Available for Benefits, at actuarial value	
(Market Value is \$141,662)	<u>145,128</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ 60,302</u>

GASB 27 INFORMATION (as of 12/31/04)

Fiscal year beginning	January 1, 2006
Annual required contribution (ARC)	\$ 23,064
Amortization factor used - Underfunded Liabilities (30 years)	0.053632

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2004 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years. Only two years data is available because the Authority separated from Montmorency county in 2003.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 8 - PENSION PLANS (CONTINUED)**

Annual Pension Cost

<u>Year Ended December 31</u>	<u>Annual Pension Cost (ARC)</u>	<u>Percentage Of ARC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 25,222	100%	\$ -0-
2004	\$ 23,618	100%	\$ -0-
2005	\$ 23,784	100%	\$ -0-

The Authority was required to contribute \$23,784 for the year ended December 31, 2005 (based upon Montmorency County valuation). Payments were based on contribution calculations made by MERS.

<u>Actuarial Valuation Date December 31</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL - % Of Covered Payroll</u>
2003	\$ 112,643	\$ 193,940	\$ 81,297	58%	\$ 159,821	50%
2004	\$ 145,128	\$ 205,430	\$ 60,302	71%	\$ 157,396	38%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, and 2000 valuations. The funding method was changed to entry age normal for the 1993 valuation.

**NOTE 9 - DEFERRED COMPENSATION PLAN**

PRIMARY GOVERNMENT

Montmorency County offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all County employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

GASB 32 does not require including the deferred compensation balances in a trust and agency fund as has been the case in previous years.

**NOTE 10 - POST EMPLOYMENT HEALTH CARE BENEFITS**

PRIMARY GOVERNMENT

In addition to pension benefits described in Note 8, the County employment agreement with the Sheriff's department employees and the personnel policy for other county employees provides for certain post employment health care coverage. All County employees must have 15 years of service and be fifty five to receive the benefits. Benefits are received for life for the retiree only. No dependent care coverage is paid for by the County. During 2005 eleven individuals were eligible for these benefits and the total cost incurred approximated \$51,687.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 10 - POST EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)**

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

In addition to pension benefits described in Note 8, the discretely presented component unit Road Commission has annually made a motion which provides for certain post employment health care coverage. Presently \$474 per month would be paid towards health insurance coverage for any retired employee. During 2005, five retirees received this benefit and \$28,440 in premiums were paid on their behalf.

DISCRETELY PRESENTED COMPONENT UNIT – SOLID WASTE MANAGEMENT AUTHORITY

In addition to pension benefits described in Note 8, the county employment agreement with the Sheriffs department employees and the personnel policy for other county employees provides for certain post employment health care coverage. All county employees must have 15 years of service and be fifty five to receive the benefits. Benefits are received for life for the retiree only. No dependent care coverage is paid for by the County. During 2005 two individuals were eligible for these benefits and the total cost incurred approximated \$10,252. This was paid on behalf of former eligible Authority employees.

**NOTE 11 - CLOSURE AND POSTCLOSURE CARE COSTS**

DISCRETELY PRESENTED COMPONENT UNIT – SOLID WASTE MANAGEMENT AUTHORITY

State and federal laws and regulations require that the Solid Waste Management Authority place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$3,368,215 as of December 31, 2005, which is based on all cells completed except for the current cell A - Phase II which is 98% filled based upon engineer estimates. At recent rates of refuse received the current cell has an estimated twenty-one month remaining capacity. It is estimated that an additional \$40,262 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the current cell is expected to be filled to capacity. The estimated total current cost of the landfill closure and postclosure care \$3,408,477 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2005. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. The Authority has completed construction of an additional cell which began being filled in July of 2002 and was 98% filled according to engineer estimates at December 31, 2005. Another cell is complete and began accepting waste as of February 1, 2006.

The Solid Waste Management Authority is required by state and federal laws and regulations to make annual contributions to finance closure and postclosure care. The County feels it is in compliance with these requirements, and at December 31, 2005, certificates of deposit and other investments in the amount of \$1,928,884 are held for these purposes. It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs (including inadequate earnings on investments, if any) and additional costs that might arise from changes in postclosure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both. Governmental Accounting Standards Board Statement No. 18 describes the accounting requirements for solid waste landfill closure and postclosure care costs. The estimated expense for closure and postclosure care costs for 2005 was \$107,278.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 12 - RISK MANAGEMENT**

PRIMARY GOVERNMENT

The County is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

The County participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property damage coverage. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund (i.e., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The County is a State pool member and has deductibles which differ for each type of coverage.

The County is a member of the Michigan Counties Workers' Compensation Fund. Full statutory coverage for worker's disability compensation and employers' liability is guaranteed by the fund for Michigan operations through authority granted by the State of Michigan under Chapter 6, Section 418.611.

At December 31, 2005, there were no claims which exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

The Road Commission is self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund and also for general liability, vehicle coverage and building coverage. An annual premium is paid to the association and premium rebates or additional amounts due are calculated annually based upon claim history experienced by the Association.

DISCRETELY PRESENTED COMPONENT UNIT – SOLID WASTE MANAGEMENT AUTHORITY

The Authority is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 12 - RISK MANAGEMENT (CONTINUED)**

The Authority participates in the Michigan Municipal Risk Management Authority (MMRMA) for general liability and property damage coverage. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund (i.e., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The Authority is a State pool member and has deductibles which differ for each type of coverage.

The Authority is a member of the Michigan Counties Workers' Compensation Fund. Full statutory coverage for worker's disability compensation and employers' liability is guaranteed by the fund for Michigan operations through authority granted by the State of Michigan under Chapter 6, Section 418.611.

At December 31, 2005, there were no claims which exceeded insurance coverage. The Authority had no significant reduction in insurance coverage from previous years.

**NOTE 13 - EQUIPMENT LEASES**

**DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION**

The Road Commission entered into long term equipment leases as follows

<u>Equipment Item</u>	<u>Lease Maturity Date</u>	<u>Monthly Lease Payment</u>	<u>Guaranteed Purchase Amount</u>
CAT 950GII Wheel Loader	11/15/11	\$ 1,452	77,452
CAT 928G Wheel Loader	09/15/11	825	50,825
CAT 930G Wheel Loader	09/15/11	824	57,324
CAT 140H Motor Grader	12/15/11	1,627	101,627
CAT 140H Motor Grader	11/15/11	1,579	101,579
CAT 143H Motor Grader	09/15/11	1,404	101,404
CAT 613 Scraper	05/15/07	<u>2,758</u>	120,000
		<u>\$ 10,469</u>	

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 14 – REVENUE SHARING RESERVE FUND / TAX LEVY**

During 2004 the State of Michigan enacted legislation creating the Revenue Sharing Reserve Fund. All Michigan counties were required to set up the fund which will be used to accumulate an additional tax levy which will, over a three year period amount to the 2004 total general operating levy. The county tax levy was previously collected between December and February and will, over the three year period, be switched to July through September. The funds can be transferred annually for general operational use based upon a State mandated amount. The effect is to collect one years tax in advance of previous collections. These funds will be used to offset the loss of State Revenue Sharing. In effect, a previous State obligation has been transferred to the local taxpayers.

The fund recorded taxes as of December 31, 2005 as revenue, in accordance with State mandated guidelines, which is a change in the way property taxes have previously been recognized. These financial statements include County general operating taxes equal to 1 1/3 years levy which reports \$695,450 more taxes than if the previous method of recording taxes had been consistently applied.

**NOTE 15 – LITIGATION**

In the normal course of its activities, the County is a party to various legal actions and subject to certain asserted claims and assessments. Although other actions have been brought, the County has not experienced any additional significant losses or costs. It is the County's opinion that the outcome of any pending actions will not have a material effect on the County's financial position or results of operations.

## **REQUIRED SUPPLEMENTAL INFORMATION**



MONTMORENCY COUNTY  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes and Penalties	\$ 2,199,014	\$ 2,199,014	\$ 2,220,649	\$ 21,635
Licenses and Permits	6,350	6,350	8,192	1,842
Intergovernmental Revenue:				
Federal	24,800	24,800	37,698	12,898
State	203,007	203,007	209,366	6,359
Charges for Services	690,880	720,880	757,581	36,701
Fines and Forfeits	7,700	7,700	5,451	(2,249)
Interest and Rents	30,000	50,000	53,445	3,445
Other Revenue	15,000	235,535	352,341	116,806
<b>TOTAL REVENUES</b>	<b>3,176,751</b>	<b>3,447,286</b>	<b>3,644,723</b>	<b>197,437</b>
EXPENDITURES				
Current				
Legislative	116,445	107,435	102,778	4,657
Judicial	569,196	573,897	571,066	2,831
General Government	1,192,339	1,239,189	1,177,816	61,373
Public Safety	1,201,786	1,213,247	1,201,864	11,383
Public Works	-	-	-	-
Health and Welfare	186,371	176,054	173,841	2,213
Recreation and Culture	102,113	74,637	63,109	11,528
Capital Outlay	700	74,810	117,088	(42,278)
<b>TOTAL EXPENDITURES</b>	<b>3,368,950</b>	<b>3,459,269</b>	<b>3,407,562</b>	<b>51,707</b>
REVENUES OVER (UNDER) EXPENDITURES	(192,199)	(11,983)	237,161	249,144
OTHER FINANCING SOURCES (USES)				
Proceeds from Installment Debt	-	-	41,834	41,834
Transfers In	278,670	224,734	180,069	(44,665)
Transfers (Out)	(299,736)	(535,025)	(386,361)	148,664
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(21,066)</b>	<b>(310,291)</b>	<b>(164,458)</b>	<b>145,833</b>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(213,265)	(322,274)	72,703	394,977
FUND BALANCES, BEGINNING OF YEAR	213,265	322,274	321,913	(361)
FUND BALANCES, END OF YEAR	\$ -	\$ -	\$ 394,616	\$ 394,616

See Accountant's Compilation Report

MONTMORENCY COUNTY  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER SOURCES--BY SOURCE  
BUDGET AND ACTUAL  
DECEMBER 31, 2005

	BUDGETED AMOUNT		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		OVER (UNDER)
TAXES AND PENALTIES				
Current Property Taxes	\$ 2,089,726	\$ 2,089,726	\$ 2,110,603	\$ 20,877
Other	109,288	109,288	110,046	758
TOTAL TAXES AND PENALTIES	2,199,014	2,199,014	2,220,649	21,635
LICENSES AND PERMITS				
Dog and Kennel Licenses	3,800	3,800	4,067	267
Gun Permits	850	850	1,529	679
Marriage Licenses	1,700	1,700	2,596	896
TOTAL LICENSES AND PERMITS	6,350	6,350	8,192	1,842
FEDERAL GRANTS				
Emergency Services	9,000	9,000	14,078	5,078
Solution Area Planner Grant	4,800	4,800	8,520	3,720
Prosecuting Attorney Cooperative Reimbursement	11,000	11,000	15,100	4,100
TOTAL FEDERAL GRANTS	24,800	24,800	37,698	12,898
STATE GRANTS				
Probate Judges Salary	20,000	20,000	20,000	-
Salary Standardization	23,850	23,850	22,211	(1,639)
Court Equity Distribution	68,000	68,000	68,499	499
Township Liquor Licenses	11,000	11,000	12,805	1,805
LEPC Planning Grant	625	625	-	(625)
Voters Registration	-	-	179	179
Cigarette Tax	6,449	6,449	6,448	(1)
Juror Reimbursement	-	-	-	-
Convention Facilities	48,008	48,008	54,930	6,922
Drunk Driving	3,075	3,075	3,622	547
Victim's Rights	22,000	22,000	20,672	(1,328)
TOTAL STATE GRANTS	203,007	203,007	209,366	6,359

(Continued)

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MONTMORENCY COUNTY  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER SOURCES--BY SOURCE  
BUDGET AND ACTUAL (CONTINUED)  
DECEMBER 31, 2005

	BUDGETED AMOUNT		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		OVER (UNDER)
CHARGES FOR SERVICES				
Circuit Court costs and Fees	\$ 193,900	\$ 193,900	\$ 173,440	\$ (20,460)
District Court Costs and Fees	30,000	30,000	61,159	31,159
Friend of Court	350	350	487	137
Prosecutor Services	4,000	4,000	8,670	4,670
Animal Control	1,500	1,500	1,640	140
Probate Court Costs and Fees	8,360	8,360	7,616	(744)
Clerk - Services	12,420	12,420	16,955	4,535
Equalization Services	30,000	30,000	28,411	(1,589)
Treasurer Services	1,600	1,600	3,376	1,776
Register of Deeds Services	108,450	108,450	116,919	8,469
Register Transfer Tax	41,000	41,000	44,897	3,897
Sheriff Services	13,000	13,000	12,688	(312)
Soil Erosion Services	8,500	8,500	3,150	(5,350)
Jail	219,800	249,800	260,173	10,373
Landfill Administration	18,000	18,000	18,000	-
TOTAL CHARGES FOR SERVICES	690,880	720,880	757,581	36,701
FINES & FORFEITURES				
District Bond Forfeit	7,700	7,700	5,451	(2,249)
TOTAL FINES AND FORFEITURES	7,700	7,700	5,451	(2,249)
INTEREST EARNED	30,000	50,000	53,445	3,445
RENTS				-
OTHER REVENUE				
District Health Utility Reimbursement	4,400	4,400	6,339	1,939
Sale of Capital Assets	-	175,000	175,494	
Court Year End Settlements	-	-	46,989	46,989
Donations	-	4,750	13,000	
Youth Officer Reimbursement	-	22,600	22,667	
Miscellaneous Refunds and Reimbursements	10,600	28,785	87,852	59,067
TOTAL OTHER REVENUE	15,000	235,535	352,341	107,995

(Continued)

See Accountant's Compilation Report

MONTMORENCY COUNTY  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER SOURCES--BY SOURCE  
BUDGET AND ACTUAL (CONTINUED)  
DECEMBER 31, 2005

	BUDGETED AMOUNT		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		OVER (UNDER)
TOTAL REVENUE	\$ 3,176,751	\$ 3,447,286	\$ 3,644,723	\$ 188,626
OTHER FINANCING SOURCES				
Proceeds From Installment Debt	-	-	41,834	41,834
Operating Transfers In:				
Tax Payment Funds	100,000	-	-	-
Revenue Sharing Reserve	173,670	219,335	173,670	(45,665)
Remonumentation	-	-	1,000	1,000
Residential Audit	-	-	-	-
Truancy	-	-	-	-
Jail commissary	5,000	5,399	5,399	-
TOTAL OTHER FINANCING SOURCES	278,670	224,734	221,903	(2,831)
TOTAL REVENUES AND OTHER SOURCES	\$ 3,455,421	\$ 3,672,020	\$ 3,866,626	\$ 185,795

(Concluded)

See Accountant's Compilation Report

MONTMORENCY COUNTY  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY  
BUDGET AND ACTUAL  
DECEMBER 31, 2005

	BUDGETED AMOUNT		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		(OVER) UNDER
LEGISLATIVE				
Board of Commissioners	\$ 116,445	\$ 107,435	\$ 102,778	\$ 4,657
TOTAL LEGISLATIVE	116,445	107,435	102,778	4,657
JUDICIAL				
Circuit Court	136,020	137,020	137,019	1
Family Court	39,212	39,213	39,212	1
District Court	157,776	162,719	162,561	158
Friend of Court	38,370	38,370	38,369	1
Probate Court	90,139	92,074	92,041	33
Jury Commission	1,242	1,142	1,096	46
Court Appointed Attorney	57,000	57,000	57,000	-
Other	49,437	46,359	43,768	2,591
TOTAL JUDICIAL	569,196	573,897	571,066	2,831
GENERAL GOVERNMENT				
County Coordinator	55,045	72,880	72,936	(56)
Clerk	141,527	144,999	144,843	156
Data Processing	80,910	78,200	77,994	206
Planning Commission	1,000	1,000	-	1,000
General Services	105,250	86,134	84,663	1,471
Treasurer	127,776	135,867	122,963	12,904
Equalization	78,343	105,561	81,229	24,332
Cooperative Extension	32,590	32,060	32,006	54
Elections	940	1,335	399	936
Courthouse & Grounds	110,985	91,696	88,849	2,847
Prosecuting Attorney	175,998	191,921	184,269	7,652
Register of Deeds	91,444	97,067	94,403	2,664
Auto Repair and Maintenance	51,057	69,584	69,549	35
Drain Commissioner	13,538	13,658	13,418	240
Other	125,936	117,227	110,295	6,932
TOTAL GENERAL GOVERNMENT	1,192,339	1,239,189	1,177,816	61,373

(Continued)

See Accountant's Compilation Report

MONTMORENCY COUNTY  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY  
BUDGET AND ACTUAL (CONTINUED)  
DECEMBER 31, 2005

	BUDGETED AMOUNT		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		(OVER) UNDER
PUBLIC SAFETY				
Sheriff	\$ 547,451	\$ 556,804	\$ 555,522	\$ 1,282
Jail	477,433	488,909	488,680	229
Emergency Services	21,625	21,625	21,000	625
Soil Erosion	625	625	64	561
Animal Control	2,175	4,050	4,026	24
Other	152,477	141,234	132,572	8,662
TOTAL PUBLIC SAFETY	1,201,786	1,213,247	1,201,864	11,383
HEALTH AND WELFARE				
Health Department	67,297	65,407	65,399	8
Substance Abuse	27,205	29,375	29,361	14
Medical Examiner	6,814	7,064	7,184	(120)
Mental Health	31,207	31,208	31,207	1
State Institutions	30,000	20,400	20,372	28
Social Welfare	4,501	6,236	6,033	203
Veterans' Service Board	6,990	6,990	5,458	1,532
Veterans' Burial	7,000	4,000	3,600	400
Other	5,357	5,374	5,227	147
TOTAL HEALTH AND WELFARE	186,371	176,054	173,841	2,213
OTHER				
Dues and Memberships	10,813	11,183	11,122	61
Other	91,000	63,154	51,687	11,467
Appropriations	300	300	300	-
TOTAL OTHER	102,113	74,637	63,109	11,528
CAPITAL OUTLAY	700	74,810	117,088	(42,278)
TOTAL EXPENDITURES	3,368,950	3,459,269	3,407,562	51,707

(Continued)

See Accountant's Compilation Report

MONTMORENCY COUNTY  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY  
BUDGET AND ACTUAL (CONTINUED)  
DECEMBER 31, 2005

	BUDGETED AMOUNT		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		(OVER) UNDER
OPERATING TRANSFERS				
Law Enforcement Grant	\$ 33,941	\$ 33,941	\$ 17,000	\$ 16,941
Law Library	5,000	7,000	7,000	-
ROD Automation	-	-	-	-
Budget Stabilization	-	44,000	37,000	7,000
Equipment Replacement	-	18,500	18,500	-
Child Care	164,685	164,685	40,000	124,685
Remonumentation	-	820	817	3
County Improvement	-	174,944	174,944	-
Building Authority - Debt Service	96,110	91,135	91,100	35
TOTAL OPERATING TRANSFERS	299,736	535,025	386,361	148,664
TOTAL EXPENDITURES AND OPERATING TRANSFERS	<u>\$ 3,668,686</u>	<u>\$ 3,994,294</u>	<u>\$ 3,793,923</u>	<u>\$ 200,371</u>

(Concluded)

See Accountant's Compilation Report

MONTMORENCY COUNTY  
REVENUE SHARING RESERVE  
SCHEDULE OF REVENUES, EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	\$ 180,000	\$ 180,000	\$ 695,450	\$ 515,450
Licenses and Permits	-	-	-	-
Intergovernmental Revenue				
Federal	-	-	-	-
State	-	-	-	-
Other Local Units	-	-	-	-
Charges for Services	-	-	-	-
Fines and Forfeits	-	-	-	-
Interest and Rents	-	-	-	-
Other Revenue	-	-	-	-
TOTAL REVENUES	180,000	180,000	695,450	515,450
EXPENDITURES				
Judicial	-	-	-	-
General Government	-	-	-	-
Public Safety	-	-	-	-
Health and Welfare	-	-	-	-
Recreation and Cultural	-	-	-	-
Debt Service				
Principal	-	-	-	-
Interest and Other Charges	-	-	-	-
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	-	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	180,000	180,000	695,450	515,450
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers (Out)	(180,000)	(180,000)	(173,670)	6,330
TOTAL OTHER FINANCING SOURCES (USES)	(180,000)	(180,000)	(173,670)	6,330
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	-	-	521,780	521,780
FUND BALANCES, BEGINNING OF YEAR	-	-	617,152	617,152
FUND BALANCES, END OF YEAR	\$ -	\$ -	\$ 1,138,932	\$ 1,138,932

See Accountant's Compilation Report



MONTMORENCY COUNTY  
BUDGET STABILIZATION  
SCHEDULE OF REVENUES, EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-	-
Intergovernmental Revenue				
Federal	-	-	-	-
State	-	-	-	-
Other Local Units	-	-	-	-
Charges for Services	-	-	-	-
Fines and Forfeits	-	-	-	-
Interest and Rents	-	-	532	532
Other Revenue	-	-	-	-
<b>TOTAL REVENUES</b>	<b>-</b>	<b>-</b>	<b>532</b>	<b>532</b>
EXPENDITURES				
Judicial	-	-	-	-
General Government	-	-	-	-
Public Safety	-	-	-	-
Health and Welfare	-	-	-	-
Recreation and Cultural	-	-	-	-
Debt Service				
Principal	-	-	-	-
Interest and Other Charges	-	-	-	-
Capital Outlay	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
REVENUES OVER (UNDER) EXPENDITURES	-	-	532	532
OTHER FINANCING SOURCES (USES)				
Transfers In	-	37,000	37,000	-
Transfers (Out)	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>37,000</b>	<b>37,000</b>	<b>-</b>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	-	37,000	37,532	532
FUND BALANCES, BEGINNING OF YEAR	-	-	266,000	266,000
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ -</b>	<b>\$ 37,000</b>	<b>\$ 303,532</b>	<b>\$ 266,532</b>

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## **OTHER SUPPLEMENTAL INFORMATION**

MONTMORENCY COUNTY  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2005

	GYPSY MOTH	BUILDING CODE	RESIDENTIAL AUDIT	ROD AUTOMATION
ASSETS				
Cash	\$ 105,748	\$ 42,125	\$ 16,948	\$ 28,947
Investments	-	-	-	-
Receivables:				
Taxes	-	-	-	-
Accounts	-	-	-	-
Mortgages/Notes	-	-	-	-
Due From Other Funds	-	-	-	-
Due From Other Governmental Units	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 105,748</b>	<b>\$ 42,125</b>	<b>\$ 16,948</b>	<b>\$ 28,947</b>
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts Payable	\$ -	\$ 1,296	\$ 282	\$ -
Accrued Liabilities	-	2,228	760	-
Due to Other Funds	-	-	-	-
Due to Other Governmental Units	-	-	4,650	-
Advances From Other Governmental Units	-	-	-	-
Deferred Revenue	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>3,524</b>	<b>5,692</b>	<b>-</b>
FUND BALANCE				
Reserved	-	38,601	11,256	28,947
Unreserved	105,748	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>105,748</b>	<b>38,601</b>	<b>11,256</b>	<b>28,947</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 105,748</b>	<b>\$ 42,125</b>	<b>\$ 16,948</b>	<b>\$ 28,947</b>

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SPECIAL REVENUE FUNDS					
911 SERVICES	CORRECTIONS OFFICER TRAINING	LAW ENFORCEMENT GRANTS	LAW ENFORCEMENT TRAINING	LAW LIBRARY	COUNTY LIBRARY
\$ 115,563	\$ 7,805	\$ 26,314	\$ 785	\$ 1,286	\$ 120,667
-	-	-	-	-	-
-	-	-	-	-	249,210
12,503	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
22,600	-	11,802	-	-	-
<u>\$ 150,666</u>	<u>\$ 7,805</u>	<u>\$ 38,116</u>	<u>\$ 785</u>	<u>\$ 1,286</u>	<u>\$ 369,877</u>
\$ 6,415	\$ -	\$ 1,241	\$ 70	\$ 860	\$ 114
6,094	-	1,800	-	-	2,846
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	249,210
12,509	-	3,041	70	860	252,170
138,157	-	-	-	-	-
-	7,805	35,075	715	426	117,707
138,157	7,805	35,075	715	426	117,707
<u>\$ 150,666</u>	<u>\$ 7,805</u>	<u>\$ 38,116</u>	<u>\$ 785</u>	<u>\$ 1,286</u>	<u>\$ 369,877</u>

(Continued)

See Accountant's Compilation Report

MONTMORENCY COUNTY  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2005

	HUD	ECONOMIC DEVELOPMENT	COPS IN SCHOOL
<b>ASSETS</b>			
Cash	\$ 68,983	\$ 69,643	\$ -
Investments	-	-	-
Receivables:			
Taxes	-	-	-
Accounts	-	-	-
Mortgages	-	112,515	-
Due From Other Funds	-	-	-
Due From Other Governmental Units	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 68,983</b>	<b>\$ 182,158</b>	<b>\$ -</b>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ -	\$ -	\$ -
Accrued Liabilities	-	-	-
Due to Other Funds	-	-	-
Due to Other Governmental Units	-	-	-
Advances From Other Governmental Units	-	-	-
Deferred Revenue	-	112,515	-
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>112,515</b>	<b>-</b>
<b>FUND BALANCE</b>			
Reserved	68,983	69,643	-
Unreserved	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>68,983</b>	<b>69,643</b>	<b>-</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 68,983</b>	<b>\$ 182,158</b>	<b>\$ -</b>

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SPECIAL REVENUE FUNDS

EQUIPMENT REPLACEMENT	STATE DOMESTIC PREPAREDNESS	MICHIGAN SAFE KIDS	DARE	VICTIM ADVOCACY	CHILD CARE
\$ 18,500	\$ 112	\$ 167	\$ 698	\$ 50	\$ 46,546
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	20,547
<u>\$ 18,500</u>	<u>\$ 112</u>	<u>\$ 167</u>	<u>\$ 698</u>	<u>\$ 50</u>	<u>\$ 67,093</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,506
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	11,506
-	112	-	-	-	-
<u>18,500</u>	<u>-</u>	<u>167</u>	<u>698</u>	<u>50</u>	<u>55,587</u>
<u>18,500</u>	<u>112</u>	<u>167</u>	<u>698</u>	<u>50</u>	<u>55,587</u>
<u>\$ 18,500</u>	<u>\$ 112</u>	<u>\$ 167</u>	<u>\$ 698</u>	<u>\$ 50</u>	<u>\$ 67,093</u>

(Continued)

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MONTMORENCY COUNTY  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2005

	SPECIAL REVENUE			
	VETERANS' AFFAIRS	VETERANS' TRUST	REMONUMEN- TATION	COMMISSION ON AGING
ASSETS				
Cash	\$ 27,205	\$ 1,034	\$ 416	\$ 304
Investments	-	-	-	-
Receivables:				
Taxes	-	-	-	205,420
Accounts	-	-	-	-
Mortgages/Notes	-	-	-	-
Due From Other Funds	-	-	-	-
Due From Other Governmental Units	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 27,205</b>	<b>\$ 1,034</b>	<b>\$ 416</b>	<b>\$ 205,724</b>
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Accrued Liabilities	-	-	-	-
Due to Other Funds	-	-	-	-
Due to Other Governmental Units	-	-	-	-
Advances From Other Governmental Units	-	-	-	-
Deferred Revenue	-	-	-	205,420
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>205,420</b>
FUND BALANCE				
Reserved	-	-	416	304
Unreserved	27,205	1,034	-	-
<b>TOTAL FUND BALANCES</b>	<b>27,205</b>	<b>1,034</b>	<b>416</b>	<b>304</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 27,205</b>	<b>\$ 1,034</b>	<b>\$ 416</b>	<b>\$ 205,724</b>

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FUNDS		DEBT SERVICE		CAPITAL PROJECT	
COUNTY IMPROVEMENT	JAIL COMMISSARY	BUILDING AUTHORITY DEBT SERVICE	BUILDING AUTHORITY CAPITAL PROJECT	LAKE LEVELS CAPITAL PROJECT	TOTAL
\$ 17,433	\$ 3,905	\$ 1,728	\$ 460	11,811	\$ 735,183
95,000	-	-	-		95,000
-	-	-	-	7,705	462,335
-	-	-	-	-	12,503
-	-	-	-	-	112,515
-	-	-	-	-	-
-	-	-	-	-	54,949
<u>\$ 112,433</u>	<u>\$ 3,905</u>	<u>\$ 1,728</u>	<u>\$ 460</u>	<u>\$ 19,516</u>	<u>\$ 1,472,485</u>
\$ 1,857	\$ 535	\$ -	\$ -	\$ 11,450	\$ 35,626
-	-	-	-	-	13,728
-	-	-	-	5,000	5,000
-	-	-	-	-	4,650
-	-	-	-	-	-
-	-	-	-	-	567,145
<u>1,857</u>	<u>535</u>	<u>-</u>	<u>-</u>	<u>16,450</u>	<u>626,149</u>
-	-	1,728	460	3,066	361,673
<u>110,576</u>	<u>3,370</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>484,663</u>
<u>110,576</u>	<u>3,370</u>	<u>1,728</u>	<u>460</u>	<u>3,066</u>	<u>846,336</u>
<u>\$ 112,433</u>	<u>\$ 3,905</u>	<u>\$ 1,728</u>	<u>\$ 460</u>	<u>\$ 19,516</u>	<u>\$ 1,472,485</u>

(Concluded)

See Accountant's Compilation Report



MONTMORENCY COUNTY  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2005

	GYPSY MOTH	BUILDING CODE	RESIDENTIAL AUDIT	ROD AUTOMATION
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	167,306	-	-
Intergovernmental Revenue				
Federal	-	-	-	-
State	-	-	-	-
Other Local Units	-	-	-	-
Charges for Services	-	-	12,713	28,145
Fines and Forfeits	-	-	-	-
Interest and Rents	-	-	-	-
Other Revenue	-	-	-	-
TOTAL REVENUES	-	167,306	12,713	28,145
EXPENDITURES				
Current				
Judicial	-	-	-	-
General Government	-	-	26,111	70
Public Safety	-	163,081	-	-
Health and Welfare	-	-	-	-
Recreation and Cultural	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and Other Charges	-	-	-	-
Capital Outlay	-	21,655	-	-
TOTAL EXPENDITURES	-	184,736	26,111	70
REVENUES OVER (UNDER) EXPENDITURES	-	(17,430)	(13,398)	28,075
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers (Out)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	-	(17,430)	(13,398)	28,075
FUND BALANCES, BEGINNING OF YEAR	105,748	56,031	24,654	872
FUND BALANCES, END OF YEAR	\$ 105,748	\$ 38,601	\$ 11,256	\$ 28,947

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SPECIAL REVENUE FUNDS					
911 SERVICES	CORRECTION OFFICER TRAINING	LAW ENFORCEMENT GRANTS	LAW ENFORCEMENT TRAINING	LAW LIBRARY	COUNTY LIBRARY
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 240,755
-	-	-	-	-	-
-	-	-	-	-	-
88,749	-	51,432	2,472	-	8,971
-	-	-	-	-	-
154,906	4,421	-	-	-	-
-	-	-	-	2,000	35,479
-	-	-	-	-	3,812
-	-	-	-	-	10,276
243,655	4,421	51,432	2,472	2,000	299,293
-	-	-	-	8,759	-
-	-	-	-	-	-
244,431	840	79,427	6,088	-	-
-	-	-	-	-	-
-	-	-	-	-	268,810
-	-	-	-	-	-
-	-	-	-	-	-
28,212	-	-	-	-	10,644
272,643	840	79,427	6,088	8,759	279,454
(28,988)	3,581	(27,995)	(3,616)	(6,759)	19,839
-	-	15,000	2,000	7,000	0
-	-	-	-	-	0
-	-	15,000	2,000	7,000	-
(28,988)	3,581	(12,995)	(1,616)	241	19,839
167,145	4,224	48,070	2,331	185	97,868
\$ 138,157	\$ 7,805	\$ 35,075	\$ 715	\$ 426	\$ 117,707

(Continued)

See Accountant's Compilation Report

MONTMORENCY COUNTY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2005

	HUD	ECONOMIC DEVELOPMENT	COPS IN SCHOOL
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-
Intergovernmental Revenue			
Federal	-	-	20,935
State	-	-	-
Other Local Units	-	-	-
Charges for Services	69,871	-	-
Fines and Forfeits	-	-	-
Interest and Rents	-	76	-
Other Revenue	-	97,203	-
TOTAL REVENUES	69,871	97,279	20,935
EXPENDITURES			
Current			
Judicial	-	-	-
General Government	-	60,239	-
Public Safety	-	-	22,927
Health and Welfare	56,464	-	-
Recreation and Cultural	-	-	-
Debt service			
Principal	-	-	-
Interest and Other Charges	-	-	-
Capital Outlay	-	-	-
TOTAL EXPENDITURES	56,464	60,239	22,927
REVENUES OVER (UNDER) EXPENDITURES	13,407	37,040	(1,992)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers (Out)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	13,407	37,040	(1,992)
FUND BALANCES, BEGINNING OF YEAR	55,576	32,603	1,992
FUND BALANCES, END OF YEAR	\$ 68,983	\$ 69,643	\$ -

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SPECIAL REVENUE FUNDS

EQUIPMENT REPLACEMENT	STATE DOMESTIC PREPAREDNESS	MICHIGAN SAFE KIDS	DARE	VICTIM ADVOCACY	CHILD CARE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	3,752	-	-	-	-
-	-	-	-	-	124,036
-	-	-	-	-	-
-	-	-	-	-	40,699
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,514	479	-
-	3,752	-	1,514	479	164,735
-	-	-	-	-	-
-	-	-	-	-	-
-	4,377	-	841	562	-
-	-	-	-	-	226,867
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	4,377	-	841	562	226,867
-	(625)	-	673	(83)	(62,132)
18,500	-	-	-	-	40,000
-	-	-	-	-	-
18,500	-	-	-	-	40,000
18,500	(625)	-	673	(83)	(22,132)
-	737	167	25	133	77,719
\$ 18,500	\$ 112	\$ 167	\$ 698	\$ 50	\$ 55,587

(Continued)

See Accountant's Compilation Report

MONTMORENCY COUNTY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2005

	SPECIAL			
	VETERANS' AFFAIRS	VETERANS' TRUST	REMONUMEN- TATION	COMMISSION ON AGING
REVENUES				
Taxes	\$ 51	\$ -	\$ -	\$ 198,226
Licenses and Permits	-	-	-	-
Intergovernmental Revenue				
Federal	-	-	-	-
State	-	1,115	59,767	-
Other Local Units	-	-	-	-
Charges for Services	-	-	-	-
Fines and Forfeits	-	-	-	-
Interest and Rents	-	-	-	26
Other Revenue	-	-	-	-
TOTAL REVENUES	51	1,115	59,767	198,252
EXPENDITURES				
Current				
Judicial	-	-	-	-
General Government	-	-	84,871	-
Public Safety	-	-	-	-
Health and Welfare	380	1,022	-	197,990
Recreation and Cultural	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and Other Charges	-	-	-	-
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	380	1,022	84,871	197,990
REVENUES OVER (UNDER) EXPENDITURES	(329)	93	(25,104)	262
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	817	-
Transfers (Out)	-	-	(1,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	(183)	-
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(329)	93	(25,287)	262
FUND BALANCES, BEGINNING OF YEAR	27,534	941	25,703	42
FUND BALANCES, END OF YEAR	\$ 27,205	\$ 1,034	\$ 416	\$ 304

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REVENUE FUNDS		DEBT SERVICE	CAPITAL PROJECT		
COUNTY IMPROVEMENT	JAIL COMMISSARY	BUILDING AUTHORITY DEBT SERVICE FUND	BUILDING AUTHORITY CAPITAL PROJECT FUND	LAKE LEVELS CAPITAL PROJECT FUND	TOTAL
\$ -	\$ -	\$ -	\$ -	\$ 7,705	\$ 446,737
-	-	-	-	-	167,306
-	-	-	-	-	24,687
-	-	-	-	-	336,542
-	-	-	-	-	-
-	26,611	-	-	-	337,366
-	-	-	-	-	37,479
-	-	-	-	149	4,063
-	-	-	-	-	109,472
-	26,611	-	-	7,854	1,463,652
-	-	-	-	-	8,759
62,202	-	-	-	-	233,493
-	23,193	-	-	12,766	558,533
-	-	-	-	-	482,723
-	-	-	-	-	268,810
-	-	50,000	-	-	50,000
-	-	41,100	-	-	41,100
28,371	-	-	-	-	88,882
90,573	23,193	91,100	-	12,766	1,732,300
(90,573)	3,418	(91,100)	-	(4,912)	(268,648)
174,944	-	91,100	-	-	349,361
-	(5,399)	-	-	-	(6,399)
174,944	(5,399)	91,100	-	-	342,962
84,371	(1,981)	-	-	(4,912)	74,314
26,205	5,351	1,728	460	7,978	772,022
\$ 110,576	\$ 3,370	\$ 1,728	\$ 460	\$ 3,066	\$ 846,336

(Concluded)

See Accountant's Compilation Report



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

June 12, 2006

Board of Commissioners  
Montmorency County  
Atlanta, Michigan 49709

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Montmorency, Michigan as of and for the year ended December 31, 2005, which collectively comprise the County of Montmorency, Michigan's basic financial statements and have issued my report thereon dated June 12, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Montmorency County's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to management of Montmorency County in a separate letter dated June 12, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montmorency County's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance that I have reported to management of Montmorency County in a separate letter dated June 13, 2006.

This report is intended solely for the information and use of management, the Board of Commissioners, federal awarding agencies, pass-through entities, and Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Thomas R. Zick, CPA P.C.", written in a cursive style.

THOMAS R. ZICK, CPA, P.C.  
Certified Public Accountant





**Thomas R. Zick CPA, P.C.**  
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### **FINANCIAL AUDIT COMMENTS**

June 12, 2006

Montmorency County Board of Commissioners  
Montmorency County  
Atlanta, Michigan, 49709

In planning and performing my audit of the general purpose financial statements of Montmorency County, Michigan, for the year ended December 31, 2005, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure. However, I noted certain matters involving the internal control structure and its operation that I feel should be brought to your attention as follows:

#### **BUDGETS**

##### **BUDGETARY PROCEDURES**

The Board of Commissioners properly adopted a budget for the General Fund for the year ended December 31, 2005 in accordance with Public Act 621 of 1978, The Uniform budgeting and Accounting Act.

Public Act 621 of 1978, section 18 (1), as amended, provides that a County shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County's actual expenditures and budgeted expenditures for the General Fund has been shown on a functional basis. The approved budget of the County for the General Fund was adopted on a line item basis by activity. The County incurred only minor unfavorable budget variances in the funds which is a major improvement over prior years.

During the year ended December 31, 2005 expenditures were incurred in excess of the amounts appropriated in the amended budget of the general fund and special revenue fund types of the primary government as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General:			
Capital Outlay	\$ 74,810	\$ 117,088	\$ (42,278)
Special Revenue:			
Library	\$ 288,295	\$ 305,258	\$ (16,963)

MEMBER: AMERICAN INSTITUTE OF CPAS & MICHIGAN ASSOCIATION OF CPAS

Public Act 621, the Budget Act defines procedures and general formats for all local units of government. The basic format requires a three columnar schedule showing prior year actual number, current year estimated number and the estimated budget for the ensuing year. The County should review that format and use it in the budget process.

Estimated fund balances along with revenue and expenditures should be a part of each fund's budget document.

The budgets, as amended, should be realistic and as close to actual as possible. During 2005 several fund budgets and line items did not meet that criteria as follows:

1. The Revenue Sharing Reserve Fund budget showed tax revenue of \$180,000 when actual revenue was \$695,450.
2. The transfer from the general fund to Child Care Fund showed a budget of \$164,685 when the actual transfer was \$40,000.
3. State Domestic Preparedness Fund budgeted for \$25,000 in revenue when the actual was only \$3,752.
4. The General Fund showed a budgeted transfer out expense to the County Improvement Fund of \$174,944, but the budgeted transfer in on the County Improvement Fund was only \$92,820.
5. The transfers in and transfers out should be budgeted in the appropriate spot based on the State Chart of Accounts not shown in the various departmental areas. Both categories should be recorded at the end of their respective revenue or expenditure categories.

### **CAPITAL ASSETS**

The County has had the capital asset schedule prepared, and updated and the balances are reflected in the audit report. There are several things which should be done to assist in updating for 2006 as follows:

1. The additions to the schedule need to be reconciled to the County capital outlay ledger accounts. I suggest that every time the clerk's office codes a check to a capital outlay account a copy of the vendor invoice be made and forwarded to the County Coordinator.
2. At year end the total additions should agree to the total capital outlay expenditures.
3. Details must be maintained for all listed assets that are sold or otherwise disposed.
4. I suggest the County set up the asset list on an Excel spreadsheet and compute the depreciation and additions schedules internally.

### **DEPARTMENTS**

#### **LIBRARY –**

1. Records were not available to audit until after 6/9/06.
2. Expenditures exceeded the budgeted amount and the final budget in the County budget document was the same as the original budget, even though the Library had amended the budget in August.

3. The imprest bank account used by the Library to pay their payroll and vendor bills should be reconciled to a fixed (imprest) amount each month and a copy of that reconciliation should be forwarded to the County Treasurer.

BUILDING CODE –

1. The outstanding bond list maintained in the department has not been reconciled to the balance in the Trust and Agency account. This should be done at least quarterly, but preferably monthly.
2. A vehicle purchased by the Building Code Fund is seldom used by that department. I suggest that the vehicle be transferred to County control by compensating the fund for fair market value.

DISTRICT COURT –

1. Deposits with the County Treasurer should be made daily.
2. The two bank accounts for imprest and trust purposes are not presently reconciled to a ledger balance. They should be recorded in the ledger and then timely reconciled each month.
3. The bonds and restitution account maintained in the Trust and Agency account do not currently reconcile. These accounts should be reconciled monthly.

TREASURER –

1. Homestead denials totaling \$68,000+ need to be reconciled and then forwarded to the individual school districts. Once the data has been entered into the Michigan Department of Education DS4410 system, the school district is charged and State Aid is reduced. The payment from the County is necessary to offset this revenue deduction and the school districts all have a June 30 year end.
2. There are numerous Trust and Agency accounts which need to be reconciled and while much of the detail data is not available in the Treasurer's Office, it is my opinion that the Treasurer should take the leadership role in working with the various departments to set up procedures so that these accounts are reconciled periodically, preferably monthly.
3. The County investment policy should be periodically reviewed for potential update and reaffirmed at the annual organizational meeting. This is more critical now with the large array of financial products available in the market place today.
4. There are instances where departments take funds to the Treasurer's Office for deposit and leave without having the deposit counted or receiving a receipt for the deposit. To strengthen accounting controls cash should be dual counted at the Treasurer's office and a deposit advice (receipt) should be processed.

CLERK –

1. The restitution account in the Trust and Agency Fund is not reconciled. Without periodic reconciliation it is difficult to determine who is actually owed the balance, and if payments are timely being forwarded to the crime victims.
2. The bond account in the Trust and Agency Fund also needs to be reconciled, and once this process occurs, a monthly reconciliation should be performed in future periods.

SHERIFF –

1. Presently the sheriff's department brings a "bag" of cash and checks to the Treasurer's office for deposit on behalf of the Commissary fund. The officer leaves the bag without having the contents counted and without a receipt. To strengthen internal control and to protect both departments, I suggest that the contents be counted under dual control of the sheriff department employee and Treasurer department employee and that a Treasurer receipt be given to the Sheriff's representative before he leaves.
2. None of the Child Care Basic Grant for the fiscal year 05/06 was recognized as revenue during the 2005 fiscal year because the billings for the Youth Resource Officer were not forwarded to the Child Care office. These billings should be done monthly to assure timely receipt of the funds from the State. We have also noted that no billings were received until May of 2006.

**OTHER / GENERAL**

The County Board should annually approve all of the County depositories, preferably at the organizational meeting in January. This could be done from a list prepared by the Treasurer.

The County still charges liability insurance and various fringe benefits such as unemployment, worker compensation, and retirement to an 800 account rather than to the individual departments. GASB #34 requires these expenses be allocated to the proper department and this has been done at year end. I suggest it be done throughout the year, but at a minimum it should be done at year end.

The homestead denial process is presently handled by the Treasurer's office, and over the past several years has generated some fee revenue and saved the State Aid revenue to the schools. The process is time consuming and confusing and many times the same taxpayers are denied only to reappear on the next tax roll with the exemption. I feel a meeting between the local assessors, County equalization, and the County Treasurer might eliminate some of this confusion and help streamline the process.

I suggest that the formal purchasing policy be amended or readopted using realistic limits. In adopting this policy you should be aware that if the limits for formal bidding are too low there is a risk of unwieldy paperwork which could cost the County more than the potential savings realized by bidding. You also run the risk of continual violation of the policy.

**MILEAGE REIMBURSEMENT**

The Department of Treasury has recently attempted to clarify the legality of payment for mileage reimbursement from home to the County building and back for county meetings. County commissioners can receive these reimbursements, however, it is Treasury's position that this is a personal expenditure under Internal Revenue Service guidelines as well as Michigan Income Tax requirements and should be included in the commissioner's W-2 wage.

It is further their position that non-commissioners appointed to various boards such as housing, jury, etc. are not permitted to receive a mileage allowance.

I suggest that the County get written verification from Treasury prior to instituting any changes in its present policy.

## **SOLID WASTE MANAGEMENT AUTHORITY**

### **ACCOUNTS RECEIVABLE / BILLING STATEMENTS**

The accounts receivable posting process, while working, appears to still need additional accounting controls. When you implement your own accounting system a control total for accounts receivable will be entered during the billing process. Your new general ledger system will maintain the control total which will then be balanced to the detail aging.

### **LONG-TERM DEBT**

The long-term debt total at December 31, 2005 is \$791,002 which has decreased by \$274,439 over the prior year. This debt still includes \$340,000 plus interest on the bonds for cell-A phase II, which was 98% full at the end of last year (December 31, 2005). The debt has been dramatically reduced, and by self funding the construction of the most recent cell, this should increase the Authority cash flow over the next several years.

### **ACCOUNTING PROCEDURES**

The Authority needs to change its method of recording and processing certain accounting transactions. For example, during 2005 equipment purchases were charged as an expense but should have been capitalized as a fixed asset to be depreciated. The bond principle payments were classified as an expense and should have been posted as a reduction in the liability accounts and the payments on the equipment lease/purchases should be separated between interest and principle and posted to interest expense and as a debit to the liability account rather than the entire payment being posted as an expenditure.

## **COUNTY ROAD COMMISSION**

### **INTERNAL CONTROL/SEGREGATION OF DUTIES**

There is not adequate segregation of duties in the accounting area. The individual who posts all journals and the general ledger also prepares checks and related disbursements journals, and also initiates most journal entries and then signs checks.

I recognize that with only two full time individuals working in the accounting area adequate segregation of duties is not only difficult but for all practical purposes impossible. The Board must recognize that all internal controls must be evaluated for cost effectiveness and at this point little can be done to increase the control without a considerable cost increase. The controls which could be added would have to be compared with the costs required to obtain those controls. By assigning the bank reconciliation procedures to another employee, considerable strengthening of internal accounting control could occur.

### **INVENTORY/INVENTORY DETAIL**

The detail road materials inventory records do not agree to the general ledger totals at year end nor did they agree throughout the year. In addition, no physical inventory was taken at or close to December 31, 2005 in order to agree the physical to the year end records.

I suggest that during 2006 a monthly physical be taken on road materials and that the detail records be reconciled each time to the ledger control totals.

Your parts inventory detail also was slightly out of balance and a monthly reconciliation of the detail to the general ledger should also be done.

We have noticed that all of the road commissions we audit have difficulty balancing these records, and if you can't get the totals to agree, possibly Cogitate could assist in this balancing process.

### **IRS REPORTING**

The Internal Revenue Service requires that form 1099 be issued to all unincorporated businesses for payment for goods and services. This would include purchase of gravel, sand, janitorial services, etc. This is required when the total payments for the year exceed \$600. Your Cogitate system tracks this information and can be used to assist in the preparation of these forms.

In addition, all attorneys are required to receive a 1099 regardless of amount or corporation status.

### **COMP TIME**

The general ledger account used to record comp time and accrued wages should be reconciled to the manually maintained system each month. This would help assure accuracy in these payroll records. In addition, your union contract requires that all comp time be paid periodically and not carried over. I suggest you comply with this provision of the contract which would save considerable accounting time and simplify the payroll process.

This report is intended solely for the information and use of Montmorency County Board of Commissioners, management, and others within the administration as well as the Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.



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